

# **The Russian-Turkish Gas Trade Partnership:**

## **Structures and policies**

MAVJUDA AKRAMOVA

GeT MA Working Paper Series  
Department of Social Sciences  
Humboldt-Universität zu Berlin  
Unter den Linden 6, 10099 Berlin

[www.sowi.hu-berlin.de/getma](http://www.sowi.hu-berlin.de/getma)

[info.getma@sowi.hu-berlin.de](mailto:info.getma@sowi.hu-berlin.de)

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### Corresponding authors:

Mavjuda Akramova, Master of Social Science, German Turkish Masters Program, Institut für Sozialwissenschaften, Humboldt-Universität zu Berlin, Unter den Linden 6, 10099 Berlin, Email: [mavjuda.akramova@gmail.com](mailto:mavjuda.akramova@gmail.com)

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# The Russian-Turkish Gas Trade Partnership:

## Structures and policies

MAVJUDA AKRAMOVA

Die vorliegende Arbeit untersucht die Natur der russisch-türkischen Handelspartnerschaft und fokussiert deren Kooperation im natürlichen Gas Sektor. Dabei werden die jeweiligen globalen Bestreben der Länder, ihre Strategien in der Energiepolitik und ihre Motivationen im Handel miteinander ausführlich erforscht. Ziel ist es, die Energieziele und die Zufriedenheit der beiden Länder im Rahmen einer erweiterten Energie Partnerschaft zu untersuchen. Die Ergebnisse der Arbeit zeigen, dass eine neue Ordnung in der Welt Vormachtstellung annimmt, die wiederum von neoliberalen Zügen geprägt ist. Russland und die Türkei sind globale und regionale Potenzen, welche sich im internationalen freien Markt integrieren wollen. In dem sie neue Strategien umsetzen, suchen sie ihre Positionen als Hauptakteure in den weltweiten Märkten zu konsolidieren. Trotz signifikanter politischer Unterschiede, stellen Russland und die Türkei den „Pragmatismus“ und die „Unabhängigkeit“ an die erste Stelle ihrer Agenda. Beide Länder wissen, dass sie abhängig voneinander sind, um wirtschaftlich zu wachsen und dass eine multidimensionale ökonomische Allianz eine wichtige Perspektive in regionalen und globalen Punkten darstellt.

**Stichworte:** russisch-türkische Beziehungen, russisch-türkischer Handelsvertrag, bilateraler Handel, Energiediplomatie, globales und regionales Bestreben, russisch-türkischer Pragmatismus, gegenseitige Abhängigkeit

This thesis examines the nature of Russian-Turkish trade partnership with particular focus on their cooperation in the natural gas sector. In so doing, countries' Global Aspirations, their Energy Strategies, the role of their National Champions in attaining countries' broader objectives, and lastly their motivations in trading with each other are extensively explored for to understand the extent to which countries' energy objectives are fulfilled in the framework of broader energy partnership.

The findings of the research suggest that in a new world order influenced by virtues of neoliberal policy Russia and Turkey, aspiring to rise as global and regional powers, are seeking to integrate themselves into the global free market system. By developing new and applicable strategies, they are aiming to consolidate their positions as major actors in the global markets.

Hence, despite significant political differences, respective countries continue their trade by placing 'pragmatism' and 'interdependence' high on agenda for Russia and Turkey understand that they need each other for economic growth and that their multidimensional trade partnership holds a prospect for achievement of their Regional and Global aspirations.

**Keywords:** Russian-Turkish relations; Russian-Turkish Gas Trade Partnership, Russian-Turkish bilateral trade, Energy diplomacy, Global and Regional aspirations, Russian-Turkish pragmatism and interdependence

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## 1. Introduction

Throughout 90s Russia and Turkey were economically backward countries. Emerging from the ashes of the Soviet Union, Russia suffered from stagnant economy. In addition, as part of Yeltsin led stabilization program, in 1998 Russia faced number of economic crises (Third World Network 2013).

With Cold War ending, Turkey found itself amidst challenges resulting from change of geostrategic situation in its periphery, especially in the Middle Eastern and Black Sea regions at large. Similar to Russia, throughout 90s, Turkey faced at least two financial crises: the first being, the "1994 post- liberalization financial crisis", and the second being protracted crisis of 1998 that resulted from spillover effect of Asian and Russian crisis at large (Uygur 2010: 2).

However, beginning of this millennium marked not only economic boom in these countries, but also bolstered their economic significance in the world. That being said, today, Turkey is Eurasia's dynamically growing market and the world's 16th largest economy (Invest in Turkey 2013). It is also one of the N11 countries that, according to Goldman Sachs criteria, have potential to become 21st century's largest economies (Euromonitor International 2008).

In 2003, Russia joined BRIC -Brazil, Russia, India and China, the world's four most rapidly developing countries with the greatest economic potential. By 2050, BRIC aim to become world's largest four big economies (Euromonitor International 2008). Also, Russia is a member of Group of Eight (G8) along with Canada, Germany, France, Japan, the United Kingdom, the United States (U.S.) and Italy. G8 is a forum of the world's most industrialized economies (Group Eight 2009). It is important to note that India and China, despite their substantial economic growth, did not qualify to become members of this Forum.

Further, both Turkey and Russia are the members of the World Trade Organization (WTO) – the organization that supervises the process of liberalization of free trade (WTO 2013). By joining the WTO, respective countries gained a possibility to trade with other nations.

Further, in year 2012 Russia ranked the world's 12th most attractive country for investors, thereby Turkey ranking the 13th most attractive country (AT Kearney 2012).

These figures demonstrate that with their FDI reputation gradually improving, their market outreach significantly expands.

Today Russia and Turkey are the world's rapidly growing economies with huge potential to become 21st century's largest economies. In pursuit to join the global free markets, Russia and Turkey have long departed from their monopoly based market system. In so doing, both Russia and Turkey are actively developing new strategies and economic tactics to allow their successful integration to the global markets.

Last but not least, it is important to underline that Russia and Turkey are major trade partners with several decades long history of energy partnership. While Russia is Turkey's second major trade partner (Babali 2012: 4), Turkey is Russia's fourth major trade partner (DG Trade Turkey 2012). Their trade partnership is often labelled as "interdependent", "pragmatic" and "strategic".

### 1.1 Problem analysis

Trade partnership between Russian Federation and Turkish Republic began in 1984 when their first gas purchase contract was signed. In the framework of this deal Turkey was supplied with 158.7 bcm (billion cubic metres) of natural gas (Gazprom 2007). In return, Turkey paid in export of goods and various services (Court reporting-Turkey 2009).

Despite the Cold War setting, throughout 80s and early 90s, respective countries' enjoyed smooth trade partnership that gradually grew from merely "give and take" relations to partnership that was of rather strategic and economic importance for Turkey. Those were, as noted by Volkan Vural, former Turkish Ambassador to Moscow, 'golden days' of cooperation that matured as part of 'perestroika' and 'glasnost' period (Court reporting- Turkey 2009).

Towards the end of 90s, Russia and Turkey signed another intergovernmental agreement to launch the "Blue Stream"- new natural gas project. As part of this agreement, Gazprom and Turkish Gas distributor BOTAS signed a deal on supply of natural gas to Turkey for 25 years (Gazprom 2013). This was the second major natural gas pipeline that supplied Russian natural gas to Turkey.

With dynamics of trade partnership gradually altering towards the end of 90s, the new millennium has marked substantial transformation of their trade partnership which extended beyond the natural gas sector. Their multifaceted partnership has now

embraced such sectors as the communication, construction, hydropower, banking, nuclear and other.

Today, bilateral relations of countries are often tagged as “multidimensional partnership” with strategic and tactical priorities. Hence, “interdependence” and “pragmatism” have become most common features of this partnership.

Further, while their trade partnership has undoubtedly become multidimensional and multifaceted, however, their trade in natural gas sector remains to dominate their trade portfolio.

## 1.2 Thesis overview

The thesis will analyze Russian-Turkish partnership with particular focus on their cooperation in the natural gas sector. Also, countries’ Global Aspirations, their Energy Strategies, the role of their National Champions in attaining countries’ broader objectives, and lastly their motivations in trading with each other will be extensively explored. In so doing, the author will examine the extent to which countries’ energy objectives are being fulfilled within the broad framework of Russian-Turkish energy partnership.

The analysis will be theoretically informed. General lenses of the neoliberal policy, provided in the following chapters, will be applied to analyze countries overall pursuit to engage in global markets, and importance of their bilateral trade in pursuit of their regional and global aspirations.

It is important to underline that during the research phase and in an attempt to compare the respective countries, the author will face an array of limitations. For instance, Gazprom and BOTAS, in terms of size and international outreach, are not comparable. However, assessment of these Companies’ roles as part of their countries’ Global and Regional Aspirations is important. These champions play enormous roles in turning their countries’ political projects into reality. Out of these considerations and being fully aware of prospective limitations the author will further explore the national champions’ structures and roles.

In addition, when assessing respective countries’ trade partnership in gas sector, the author will be examining their investment in energy sector. Considering that one is energy producer and the other is consumer, the author expects that respective countries’ investments and contributions may not be equal. Also, it may be that data



pertinent to their contributions in energy sector may be secretive and undisclosed. Being aware of such and similar limitations, author will conduct comparison and analysis will be conducted.

### 1.3 Overall research design

Method of inquiry: throughout this thesis a theoretically informed assessment will be carried out. The assessment of the textual material will be rather qualitative. However, in cases of necessity, it may be of quantitative character.

Further, during research phase, scholarly and academic works, journal articles, think tank publications, Companies' homepages and event based reports will be used. Also, in person interviews with academia professionals, former employees of BOTAS and International Experts will be conducted. List of interviewed persons will be enclosed.

Period of time: the time period of 2000-2012 shall be embraced provided that this time frame has marked the peak of countries trade partnership. When necessary, historical reference to the events of 90s and 80s will be made.

### 1.4 Research and guiding questions

What are the Russian-Turkish gas strategies?

- How can Energy Strategies of countries be best explained?
- How do the business strategies of Gazprom and BOTAS reflect their countries Energy Strategies and Global Aspirations?
- What particular roles will these gas companies play in pursuit of their countries' Global Aspirations?
- What are Turkey's broader Caspian Policies? Do they conflict with those of the West and Russia? What is Turkey's Engagement Policy?
- How is Turkey viewed in Russia's broader "expansion policy"?
- How does Turkey view Russia as part of its "engagement policy"?
- What best explains the nature of their trade partnership: interdependence, pragmatism or other?
- To what extent does their partnership help them advance in their Global and Regional aspirations?

## 1.5 Hypothesis

In a globalized market, economically weaker states form joint ventures or trade partnerships in order to generate the economic strength. Trade partnership may either be short term or long term. What is important is that this partnership yields prospects for generation of the amount of economic power that is sufficient to challenge the established market system. The hypothesis is that Russian-Turkish trade partnership will continue for so long as the respective countries generate the required economic power. The kind of power that shall help them rise as global market players.

## 1.6 Neoliberal policy

According to David Harvey, the neoliberalism is a policy of “political and economic practices” that suggests that well-being of people can be achieved and furthered through liberation of individual entrepreneurial freedoms and skills. Liberation takes place within an “institutional framework” and aims to promote free markets and free trade (Harvey 2005: 2). For it to function within this system, the institutional framework necessitates such essential institutional arrangements as freely functioning markets, free trade, strong individual private property rights and the rule of law (Harvey 2005: 64).

Provided that “private enterprise and entrepreneurial initiatives” are viewed significant elements of innovation and generation of wealth, allowing more freedom for businesses and corporations within the system of free markets and free trade increases fundamental significance of the institutional framework. Privatization of assets is also deemed important within this framework. (Harvey 2005: 64). Yet, competition is another key virtue of the system that takes place between various actors such as individuals, firms, nations, etc. (Harvey 2005: 66).

In addition, owing to its ability to improve efficiency and productivity, the “international competition” is viewed an essential element of the framework. This necessitates states’ “collective” actions directed towards lifting barriers to allow for more free flow of capital across the borders, thereby making the global markets open for exchange (Harvey 2005: 67).

Hence, by focusing on “privatization” and “competition” the proponents of this policy argue that those two components would actually help system to eliminate state barrier, thereby increasing efficiency and productivity of free markets and trade

(Harvey 2005: 65). In other words, making the “market exchange” a central point in this system, theorists suggest that bringing all human action to the domain of the market is what constitutes the core value of the policy (Harvey 2005: 3).

What particular role does state get to play in this system? Proponents of this policy suggest that state’s responsibility within neoliberal system is limited to establishing and guaranteeing durability of institutional framework for political economic practices. In instances when appropriate markets do not exist, state is responsible for their creation. Apart from these tasks, state intervention into the market is not favored. Further, state is also required to continually undertake “internal reorganizations” and if necessary, embark upon “new institutional arrangements” so as to upgrade and improve its competitive position vis-à-vis others (states, entities) in the global market (Harvey 2005: 65).

It is important to underline that unlike Laissez Faire neoliberalism, this neoliberal policy does not view the state intervention as a factor with negative impact. Instead, this policy stresses that there where there are no relevant institutional arrangements as in markets, state’s intervention in establishment of such and similar institutional arrangements is required to allow markets to function (Theories and concepts 2013).

In summary, it is important to point out that neoliberal world is a result of emergence of free markets and states’ pursuit, by means of employment of relevant strategies, to integrate themselves into the free markets. That being said, this is a framework of political economic practices that strongly advocate free markets and free trade. By focusing on market exchange as a central point of the system, this framework of political and economic practices places a greater virtue on privatization and competition at large.

Hence, while conducting an analysis of the textual material pertinent to Russia and Turkey’s pursuit to integrate themselves into the global markets, the author will make a great use of provisions of the neoliberal policy.

## 1.7 Thesis Synopsis

Chapter I provides information on Russia’s Global Aspirations with a view on “energy complex”. In addition, Russian Energy Strategy, its major objectives and policies will be examined. Also, this chapter will closely examine Gazprom’s structure, business strategy, national and international outreach, and finally its close affiliation to Kremlin.

Chapter II provides broad overview of Turkey's Regional Aspirations. Also, Turkish Energy Strategy and Turkey's broader Caspian objectives and its recent Engagement Policy will be closely examined. In addition, BOTAS's structure, market strategy, national and international outreach, and its affiliation to the Turkish government will be particularly explored.

Chapter III will analyse evolution and transformation of the Russian-Turkish relations with a focus on their cooperation in energy sector. While discussing countries' "multidimensional" partnership, countries cooperation beyond the energy sector will be shortly examined.

Chapter IV will conclude the research findings.

## **2. Russia's Global Aspirations, its Energy Strategy and the National Champion "Gazprom"**

### **2.1 Russia's Global Aspirations: virtue of "energy complex"**

*This section provides overview of Russia's Global Aspirations. Hence, the virtue of the "energy complex" in Kremlin's geostrategic calculus will be examined.*

After the decline of the Soviet Union, Russia had an image of merely regional power that was undergoing number of economic crises.

However, the past decade alone marked Russia's transformation from a "debtor nation into a respected international player" (Kaloudis 2009: 15). Similarly, Anders Aslund (2009), European Energy Analyst, argues that the last decade marked Russia's emergence "as one of the big, rising economies" with an annual economic growth rate of 7.0.%. Sources suggest that Russia's rise is closely related to an increase of hydrocarbon prices and their actual contribution to the state budget at large (Brookings 2012). Further, stressing the significance of the hydrocarbon resources, international energy experts argue that the natural gas is a strategic commodity that can be employed as an effective tool of foreign policy (Leijonhielm/ Larsson 2004: 72).

What is the role of the energy complex in Russia's geopolitical calculus? Is there a hidden agenda? While many questioned the value of 'energy' for Kremlin, Igor Torbakov (2007: 14), International Energy Analyst, contends that Russia has always been open about the role of hydrocarbon resources in its grand plan pertinent to restoration of Russia's geopolitical influence in international arena. According to him,

the “energy complex” is a “foundation” of Russia’s economic development. That said, it is an effective tool for implementing Russia’s domestic and foreign policy. Henry Helen (2010: 20), European Scholar, similarly argues that energy plays a major role in restoration of Russian’s image internationally. Thereby, Andreas Heinrich (2008: 1570), International Energy Expert, argues that the combination of economic and political factors form the basis of the Russian Energy Policy at large which pursues twofold goals: on the one hand, maximization of an income, and on the other hand, strengthening Russia’s market position in the global markets.

Alternatively, it may be summarized that Russia understands the way the global free markets function. Russia admits that only through economic power, not military one, shall Russia rise as a superpower. To integrate itself into this global market, Russia had to find its own niche. Competing with advanced economies and their high technologies and industries was neither realistic nor feasible for Russia. Therefore, Russia viewed the “energy card”, in particularity, the “gas trade” as the most promising tool for maximization of an income and economic growth, at the same time used it as instrument to facilitate Russia’s access to and expansion in the world energy markets. Similarly, Igor Torbakov (2007: 7) contends that Russia’s active engagement in the world energy markets has, in the long run, a potential to yield a prospect of determining its geopolitical influence.

*Based on the findings it may be concluded that Russia’s energy potential indeed plays significant role in country’s economic growth. This combined with a prospect of accessing world energy markets has prompted Russia to place a great value on its energy potential which is likely to become an effective instrument in the pursuit of its Grand Aspirations: (1) restoration of Russia’s image in international arena (2) reassertion of its geo-political position as world power.*

## 2.2 Russian Energy Strategy: its “market expansion” policy and the role of diversification in it

*Following section provides broad overview of Russian Energy Strategy with focus on the major objectives, policies and instruments.*

Further, as part of broader analysis of Russian Energy Strategy, two major objectives must be pointed out:

- 1) maximization of efficient use of existent energy potential and facilitation of its full-scale integration into the world energy markets.
- 2) enhancement of Russia's position in the world energy markets and gaining the highest possible profit for the national economy.

It is noteworthy to highlight that these objectives are very much influenced by and complimentary to Russia's Grand Ambitions at large (Russian Ministry of Energy 2010).

Additionally, along with major objectives, two broad vectors of the Strategy deserve special consideration: one being, maintenance of very solid and stable relationships with traditional energy consumers; and two being, smooth access to and shaping stable relationships with the new energy markets (Russian Ministry of Energy 2010). In other words, keeping friendly business relations with old consumers and initiating partnerships with new energy consuming markets are high on agenda.

Furthermore, based on the broad objectives and vectors mentioned above, several key activities have been developed. Hence, below are the most significant activities (Russian Ministry of Energy 2010):

- diversification of export energy markets; and stimulation of Russian energy export;
- substantiation and enhancement of leading Russian energy companies' positions abroad;
- extending Russian government's assistance to create favourable and non-discriminatory environment for energy companies (including those foreign companies with Russian shareholders) in the global energy markets;
- initiating international cooperation for implementation of sophisticated energy projects;
- active engagement in international energy negotiation processes (including issues pertinent to "importers, exporters and transit countries");
- building partnerships with the countries-members of the Organization of Petroleum Exporting Countries and the Gas Exporting Countries Forum;
- development and maintenance of productive energy cooperation with the European Union, Eurasian Economic Union, North-Eastern Asia, Commonwealth

of Independent States (CIS) countries, Shanghai Cooperation Organization, and as well as with other international organizations and countries are key;

So far, these were broad energy activities that encompassed all energy sectors, including gas sector. Additionally, gas sector specific activities were also developed. Hence, major and most relevant activities in this direction are:

- increase of economic efficiency and liberalization of the gas market through improvement of gas industry's organizational structure;
- provision of stable and uninterrupted natural gas delivery to national and foreign consumers;
- provision of stable revenues to the country's budget that shall correspond to significance of the energy sector in generation of the gross domestic product;

That being said, an income for state budget, in parallel to which continuing reliable supply of natural gas to end users, including some innovation pertinent to the gas system infrastructure, are major activities of the gas sector at large.

Further, in order to achieve Strategy's major objectives in the coming years the "market expansion" policy has further been developed. By means of this policy Russia seeks to access and enhance its position in the global energy markets. In so doing, moving beyond being just "gas supplier only", it wants to embrace other energy sectors too. Hence, "diversification of route" and "diversification of exported energy resources" are two effective instruments that will make the expansion policy feasible.

To begin with diversification of route, it may be said that it aims at ensuring safety of uninterrupted gas supply to the end users. In an attempt to bypass transit-countries Russia embarks on building large scale pipelines that shall shorten the way to Europe, at the same time allowing the country to avoid problematic transit-countries. In this respect, Baltic pipeline system, South Stream pipeline project and Nord Stream projects are the pipelines that hold a prospect of making diversification of routes possible (Russian Ministry of Energy 2010; Vestnik Kavkaza 2013).

It is also important to underline that as part of this instrument, Russia aims to diversify its pipelines to the European energy market where Russia's market share in gas sector account for more than 35% (Russian Ministry of Energy 2010).

Diversification of energy exports is an instrument that, on the one hand, facilitates Russia's presence and gradual expansion in the markets where it is currently active; on the other hand, it facilitates country's smooth access to and gradual expansion in the new energy markets (Russian Ministry of Energy 2010).

Provided that energy markets do differ from each other in terms of need for the energy, Russia plans to increase its capacity to meet each major market's specific energy needs. In this respect, Russia, in addition to hydrocarbons, is developing and/or upgrading its production and export capacity in the electricity, nuclear energy and liquefied natural gas' (LNG) sectors (Russian Ministry of Energy 2010).

Russia is Europe's major natural gas provider. In addition to export of fossil fuels to Europe, Russia plans to engage in production of electricity in Europe. In this respect, Russia keens to acquire shares of the European power generating plants (Vestnik Kavkaza 2013).

While Europe will likely remain to be Russia's priority market, however Russia keens to expand in the East Asian and North American markets with particular focus on LNG (Center for Strategic and International Studies 2012).

In this respect, Russia is developing its capacity in production of LNG (Russian Ministry of Energy 2010). Hence, according to Valeri Yazev, leading Russian Expert, with LNG terminal in Sakhalin (9.5-10 million ton per year), "Yamal SPG" project (15-50 million ton LNG) and 'Shtokhman' (22.5 million tons of LNG) projects taken together, Russia's objectives pertinent to the amount of LNG production will be met (Vestnik Kavkaza 2013). Hence, combination of LNG deliveries with Russia's well-developed gas transport infrastructure is viewed to provide powerful impetus for enhancement of Russia's positions in the new markets (Russian Ministry of Energy 2010).

Further, Russia is slowly expanding its engagement in nuclear sector in foreign countries. The country has already poured its largest investment in nuclear sector to construct the \$20 billion worth Nuclear Power Plant in Turkey's Akkuyu region. The plant will produce electricity that shall additionally meet Turkey's growing domestic need (China Daily 2010).

*To conclude on this chapter, the Strategy at large is designed so that end results of this particular Strategy will be complimentary to achievement of country's Grand Ambitions. As part of this strategy, policies and tools have been developed to attain*



*major objectives, thereby facilitating Russia's smooth integration into the global markets.*

*Hence, through implementation of "expansion" policy Russia wants to stabilize its positions in the markets where it is active. Also, it seeks to expand in these markets through investing in other sectors than the natural gas. While gas and oil remain major export commodities, however, expansion in the electricity, LNG and nuclear energy sectors are considered strategically important.*

*Additionally, Europe will remain Russia's biggest export market. However, endeavours are being made to facilitate Russia's access and rapid expansion in the Asian and North American markets.*

*Based on findings explored in the previous and current sections, it may be concluded that in order to achieve its Global Aspirations in a free market setting, Russia, by determining its own niche in the energy sector, has developed and employed various relevant market strategies to integrate and consolidate its market position in the global markets.*

## **2.3 Evolution and transformation of Gazprom as Company: its structure, market strategy, outreach, and affiliation to Kremlin**

*Objective of this section is to examine tools and mechanisms of Gazprom, as well as pointing out transformation of Gazprom as Company.*

### **2.3.1 Relationship with the Russian State**

*This section will closely examine the role of the state in administering the transformation of Gazprom as Company.*

Throughout the history, Gazprom's terms of reference and its role as an entity were ambiguously subject to reiterated changes.

In year 1965, Gazprom was established as the Soviet Gas Ministry with responsibilities to manage and control the Communist Party's national gas industry (Makarova-Victor 2008: 46). The time period of late 60s and 80s marked adoption of the Soviet policy that aimed to supply Eastern European countries with natural gas. Gas was distributed on a "free of charge" basis. In return, what Soviets demanded from Eastern European countries' was loyalty to the Soviet system. Also, as part of Brezhnev's legacy, Soviet

energy exports were administered with a sole aim of generating the “hard cash” for the state budget (Gustafson 1983: 100).

During Gorbachev’s period of governance and as part of his famous “perestroika” program, Gazprom’s structure altered and it was soon turned into a state unit with responsibilities of gas production, distribution and sales only (Makarova-Victor 2008: 47). Gorbachev, annulling the previous policy of free distribution of gas, now reassured the Eastern European countries that the Soviet Union would not anymore interfere into their domestic politics. He invented a new policy which promoted economic interdependence between them and the Soviet Union (Gustafson 1983: 107).

With Yeltsin rising to power, Gazprom’s future due to persisting economic hardships and political instability remained very unclear. The predicament was caused by at least two factors: one being failure of liberalization program and privatization at large; second being emergence of hydrocarbon barons and their drive for monopoly of the private sector and political power.

More specifically on this, incapacitated and weak state’s attempts to make smooth transition from the soviet to market economy have miserably failed. During his presidency, Russian budget again largely depended on export of fossil fuels. Liberalization program simply did not work. Privatization of state assets was mishandled. Most assets were sold for prices lower than their established market prices (Human Edge Documentary 2013). This, in its own turn, opened a room for greater losses on part of the state.

On the other hand, “hydrocarbon barons” or “oligarchs”, as they are often labelled in Russia, took a greater advantage of mishandled privatization process. They managed to acquire inexpensive but very lucrative hydrocarbon resources. This small group of actors monopolized the privatization process (Human Edge Documentary 2013). Money coming from sales of Russian fossil fuel often circumvented the state budget (Makarova-Victor 2008: 50). Consecutively, having had generated great fortunes and wealth, they had now controlled the Russian economy from within. Economic power allowed them to intervene in government’s political decision-making process and influence parliament’s law-making process pertinent to economic issues (Makarova-Victor 2008: 71).

Also, during this time period, there was a hidden clash between political bureaucrats and hydrocarbon barons over who will control the energy companies, including Gazprom. According to Nadezhda Makarova Victor (2008: 7), prominent Energy Analyst, hydrocarbon companies which existed during 1990-2004 time period can be classified as either “private”, “private with regional government influence”, or “private with federal government influence”, or “fully state-controlled companies”. Among those, Gazprom was partly state-controlled company managed by the small group of bureaucrats (Makarova-Victor 2008: 6). As part of privatization process, during 90s minority shares of Gazprom were being distributed to managers and employees of Gazprom (Aslund 2006).

Viktor Chernomyrdin, former Soviet Minister of Gas Industry, attempted to transform Gazprom’s structure from former Ministry to a Company. However, his efforts were not successful. The elements of the old ministry as in production, transportation, distribution, sales, research, and regulation per se remained to persist (Aslund 2006).

This time of uncertainty has well coincided with Putin’s rise to power. From political and economic points of view, situation in Russia was very chaotic. What Putin aspired at that time was to stabilize political arena and take control over Russia’s economy. As part of this plan, government was cleaned from illegitimate bureaucrats, and “hunting season” against hydrocarbon barons was launched. As a result, hydrocarbon barons were forced to either return their shares to government as Gusinsky did, self-initiate their own exile, as Berezovsky did, or were jailed as Khodorkovsky (Human Edge Documentary 2013).

As part of this campaign, the Kremlin not only managed to sideline the economic actors from further intervention or influencing the politics, but it also regained greater control over Gazprom (Makarova-Victor 2008:51). This included replacement of Rem Vyakhirev and his team, who ran Gazprom for the past 10 years, with Aleksei Miller, Gazprom’s current CEO and his team from St. Petersburg. New team of St. Petersburg then occupied all key financial posts within the Company (Makarova-Victor 2008:50). Sources suggest that by dividing Gazprom’s management into three groups: the first being led by Alexei Miller and young economists, the second led by specialists with KGB background, and the third by Gazprom’s older employees, Putin was able to manage Gazprom in a more “balanced way” (Aslund 2006).

That being said, Putin consolidated the political and economic power in Kremlin's hand. Also, during his presidency, the country favored fossil fuels exports that were much needed for the state budget. As it was discussed in previous chapters, fossil fuels are Russia's strategic energy commodities (Makarova-Victor 2008: 51). As sources suggest, while oil generates money, however, natural gas is exercised as very effective instrument of power (Forbes 2013).

Understanding the need for foreign investment so as to help country's economy to recover, he pushed for more liberalization (Makarova-Victor 2008: 51). As a result, efforts were put to streamline Gazprom's budgetary process, thereby making financial transactions as transparent as possible (Makarova-Victor 2008). It must be noted that unlike his predecessors, Putin allowed for "state controlled" liberalization program (Human Edge Documentary 2013).

Hence, as part of his liberalization program, he [Putin] allowed privatization in all sectors, including oil and gas. However, unlike other sectors, Putin decided to establish quotas on privatization of fossil fuels. Respectively, enactment of Federal Law "On gas supplies in the Russian Federation" allowed government to retain controlling interest shares in the gas monopoly at 50% plus one share (Makarova-Victor 2008: 51). It is noteworthy to mention that similar quotas were not applied for other sectors. For instance, today German investors own up to 70% of shares of Russian electricity producing companies (Vestnik Kavkaza 2013).

Today Gazprom controlling stake of 50.002% is owned by the state. Remaining shares are privatized by other various entities. Hence, table 1 provides best illustration of actual shareholders of Gazprom (Gazprom 2011):

| SHARE CAPITAL STRUCTURE  |                          |                         |
|--|--------------------------|-------------------------|
|  | as of December 31, 2010. | as of December 31, 2011 |
| Shareholding controlled by the Russian Federation, including:                      | 50.002 %                 | 50.002 %                |
| Russian Federation represented by the Federal Agency for State Property Management | 38.373 %                 | 38.373 %                |
| ОАО Rosneftegaz  | 10.740 %                 | 10.740 %                |
| ОАО Rosgazifikatsiya   | 0.889 %                  | 0.889 %                 |
| ADR holders  | 27.570 %                 | 28.350 %                |
| Other registered entities  | 22.428 %                 | 21.648 %                |

Source: Gazprom.

*Based on arguments provided above, it may be said that Gazprom's historical evolution and relatively recent transformation as Company can be described as very uneasy and chaotic in the least. Emerging as powerful Soviet Ministry, Gazprom's future and structure, in the 80s and 90s, were subject for reiterated amendments. Collapse of the Soviet Union, liberation programs, persistent political and economic instabilities in the country were some of the factors that dragged Gazprom into very hard times.*

*Launch of Putin's state controlled liberalization program facilitated transformation of Gazprom into Company. Owing to state interests in retaining control over strategically important hydrocarbon assets, with enactment of Federal Law on gas supplies, Russian Federation with 50% plus one share has become Gazprom's largest shareholder; thereby remaining shareholders being private sector and individual entities.*

### **2.3.2 Gazprom's Business Strategy: "Market Expansion"**

*This section will examine Gazprom's market strategy with particular focus on its policies and instruments.*

Gazprom's prime strategic goal is to transform Gazprom into a leader among global energy companies. Hence, Gazprom's management is certain that availability of resource bases, enormous industrial potential and current strong market positions would eventually make Gazprom number one Company in the global energy markets (Gazprom 2006).

Further, major strategic priorities of Gazprom's business plan include (Makarova-Victor 2008: 21; Gazprom 2011):

- (a) building up the capital;
- (b) increase production of natural gas;
- (c) diversification (export energy commodities, supply routes and sales markets
- (d) maintaining the leading role in the markets where it is active;
- (e) access to and gradual expansion in prospective markets;

Above priorities can be summarized that Gazprom seeks expansion covering broad spectrum of energy sectors in the global energy markets. It wants either maintaining its role in the markets where it is active and seek further expansion, as well as access new markets by offering various kinds of energy resources (Gazprom 2011).

Hence, market expansion policy is exercised through two major instruments: diversification of routes and export energy commodities.

It is important to note that in instances when none of the above instruments are applicable, as a last resort Gazprom attempts to at least maintain its position in particular market.

Further, it is important to highlight that the European market remains Gazprom's major consumer market. Gazprom covers one quarter of EU's gas supplies. This equals to somewhat 40% EU's imports (Aslund 2009). Despite EU's displeasure with Gazprom's monopoly of EU energy imports, Gazprom is however committed to continue to meet at least one third of the European natural gas demand (Gazprom 2011).

According to Makarova Victor (2008: 27), "Gazprom's goal is commercial expansion on a broad front, in diverse international markets". Hence, in pursuit of expansion in the international markets and as part of its exploration & production sector based activity, Gazprom has initiated field works in Vietnam, India, Venezuela, Uzbekistan Tajikistan, Kirgizstan, Libya, Algeria, Iran and other countries (Gazprom 2006). Hence, while activities in Uzbekistan, Tajikistan and Kirgizstan are of explorative character, however, Gazprom's activities in Turkmenistan and Kazakhstan, where world's fourth major hydrocarbons lie, are of strategic significance.

By maintaining its leading position and taking advantage of its current geostrategic position, out of geopolitical considerations, Gazprom wants to solidify its position in the Eurasian markets as in Europe, Central Asia and Caspian basin.

In an attempt to lessen Russia's dominance in its energy market, for years Europe has actively sought to establish trade relations with the Caspian and Central Asian countries. For Gazprom allowing the Caspian and Central Asian energy exports to Europe would have significantly lessened a need for Russian energy exports to Europe. Additionally, that would have led to severe losses in terms of source of income and major consumer market. Such a scenario would not have only diminished Gazprom's role as a leading energy company, but also significantly penetrated Russia's Grand Aspirations at large. This is why, maintaining its leading role in Eurasian markets is of key significance.

*Diversification of energy commodities:* Gazprom actively seeks to expand in the European market. Expansion may involve other sectors than fossil fuels. It is noteworthy to mention that over the past years, Gazprom has been actively engaged in diversification of its export portfolio which now, in addition to fossil fuels, includes the LNG and power generation (Gazprom 2013). Electricity is viewed an important energy commodity in Gazprom's diversification calculus (Gazprom 2011). In this respect, Gazprom actively seeks to invest in "Asian and European" power generating assets (Gazprom 2013). LNG is yet another significant export energy commodity for its market expansion policy. Respectively, it plans to produce up to 15% of the world's LNG volume (Gazprom 2011).

Gazprom eyes to obtain 10-15% share of the North-East Asian energy markets (Gazprom 2011). Commercial negotiations with China on gas supplies are in process (Gazprom 2013). Gazprom has recently signed an agreement on construction of \$7billion worth LNG plant in Vladivostok city of Russia. Provided that Japan is the world's fourth major energy consuming market, Gazprom plans to increase the natural gas and LNG supplies to Japan, which in terms of size, may exceed energy exports to Europe (Natural Gas Europe 2013). Hence, North American markets are also of particular interest to Gazprom. Sources suggest that by 2020 Russia wants to occupy 10% of share of the North American LNG market (Russia Today 2013).

*Diversification of supply routes:* being aware of EU's interest in diversifying energy supply lines to Europe and in light of difficulties arising from transit countries such as Ukraine and Belarus, Gazprom now actively seeks to diversify its natural gas supply lines to Europe. It is important to mention that 80% of Russian natural gas exports to Europe go through Ukraine whereas the remaining 20% go through Belarus. Respectively, Nord Stream and South Stream are currently Gazprom's priority projects that actually allow Gazprom avoid these transit-countries (Aslund 2006).

Below is short overview of these projects:

*The Nord Stream* is a gas pipeline project that is 1,224 km long and runs across the Baltic Sea to the German coast Greifswald. It is projected to supply 55 billion m<sup>3</sup> of natural gas per annum (Gazprom 2013).

The project is fully owned by the Nord Stream AG- gas pipeline construction operator in a following manner: Gazprom owns 51% of stakes, Wintershall Holding's BASF SE

subsidiary and E.ON Ruhrgas together own 15.5% of shares each and N.V. Nederlandse Gasunie and GDF SUEZ own 9% shares each. Owing to its significance, it has recently been included into EU's list of the "top-priority energy projects of the Trans-European Energy Network" (Gazprom 2013).

*The South Stream* is second major gas pipeline that is 900 km long with the maximum depth of 2,250 metres. Its offshore section is designed to deliver 63 bcm of gas. Running through the underwaters of the Black Sea, it will deliver natural gas to the Southern and Central Europe, in particularity (Gazprom 2012):

- to Austria (through Bulgaria, Serbia and Hungary);
- to Northern Italy (through Bulgaria, Serbia, Hungary and Slovenia);
- to Greece and Italy (through the Southwestern route);

The project is fully owned by the South Stream Transport AG in a following manner: Gazprom owns 50% of stake, Italian Company Eni owns 20%, and German Wintershall together with French EDF owns 15% of project's shares each (Gazprom 2013).

When viewed from market economy perspective, Anders Aslund (2006) argues that multiplication of natural gas transportation is highly desired strategy. Now that when diversification of supply lines is deemed important, it goes without saying that it would make sense to invest in purchase of additional gas pipelines in Europe. In this respect, Anders Aslund (2006) argues that in an attempt to maintain and possibly extend its monopoly over the gas pipeline transportation, Gazprom invests in acquisition of pipelines in other countries. According to Makarova-Victor (2008:6) Gazprom's most significant acquisitions include:

- Germany: 35% stake from Wingas - country's third operator
- Czech Republic: Gas-Invest, a company controlled by its German subsidiary Zarubezhgaz
- Finland: Gasum
- Baltic States: Lietuvos Dujos, Eesti Gaas and Latvian Gaze;
- Hungary: Panrusgaz
- Italy: Promgaz
- United Kingdom: Gazprom UK Trading



- Turkey: Aksa Enerji Uretim AS (AKSEN)- largest natural gas distributor in Turkey; Bosphorus Gaz Corporation – gas transporter with 3% of domestic market share;

*Based on the findings, it may be concluded that through employment of its market expansion policy, its two components as in diversification of routes and export of energy commodities, Gazprom wants to maintain its leading role, thereby gradually expanding in the global energy markets. While Europe is likely to remain Gazprom's strategically important energy market, however, as part of its expansion policy, Gazprom will be integrating into the Asian and North American markets.*

*When viewed from larger perspective, it may be argued that Gazprom's business strategy is, by and large, complimentary to the priorities of Russia's Energy Strategy which, in its own turn, is broadly influenced by Russia's Grand Aspirations. That being said, reflection of Energy Strategy's major objectives in Gazprom's business strategy demonstrates that with Gazprom in the field Russia's market strategies, developed for integration into the global free markets are taking a practical form.*

### **2.3.3 Gazprom from within: its organizational structure, national and international outreach, and affiliation to Kremlin**

*This section will provide information on Gazprom's internal structure, national and international outreach and alliance with Kremlin.*

Gazprom Group is made of the parent company - OAO Gazprom and its subsidiaries. Gazprom is extremely 'diversified' and vertically integrated energy company with activities varying from hydrocarbon business to media (Gazprom 2012). In its core business, Gazprom is engaged in natural gas, gas condensate and oil exploration, production, transportation, storage, processing and marketing, also thermal and electric power generation and distribution (Gazprom 2013).

In terms of organizational structure, Gazprom is comprised of 22 departments that fulfill various tasks to ensure Gazprom's global operability in various sectors. Of them, Asset Management and Corporate Relations, Economic Expert Analysis and Pricing, Gas and Liquid Hydrocarbons Processing and Marketing, Gas, Gas Condensate and Oil Production, Gas Transportation, Underground Storage and Utilization, Information and Communications, International Business, Investment and Construction, Project Management play utmost crucial role in administering Gazprom's natural gas supply

projects around the globe. A total of 404.4 thousand employees, of them 25.9 thousand foreign nationals, are engaged in advancing Gazprom's global activities (Gazprom 2013).

With gas reserves equal to 18% of the world share, and 70% of Russian gas share, Gazprom produces 15% of the world's and 77% of the Russian natural gas production (Gazprom 2011). Also, Gazprom dominates Russia's upstream. Eighty percent of Russia's total natural gas is produced by Gazprom. While it maintains direct control over 65% of Russia's proven natural gas reserves in Russia, according to Eurasia Journal, "additional reserves being controlled by Gazprom in joint ventures with other companies" (Eurasia Review 2012). In addition, it also owns the world's largest gas transmission network -the Unified Gas Supply System (UGSS), the total length of which is 161 thousand kilometers. Russian natural gas exports are carried out by Gazprom's subsidiary "Gazexport" (Gazprom 2013).

While half of its overall produced gas goes to the Russian consumers, the remainder of gas is exported to 30 countries in Europe, Asia and other markets. That being said, it is a major natural gas supplier to the Russian consumers (70 percent share in the Russian Market) and is the largest natural gas exporter to the European market (35 percent shares on the European market- Europe's major gas supplier so far). Also, about 65 percent of its natural gas is being exported to Turkey, with a prospect of increase to as much as 80 percent (Gazprom 2013).

Further, being the legal successor of the State Gas Concern -Gazprom, it also owns rights to use land, subsurface reserves, natural resources as well as the rights and commitments under the agreements concluded by the Company (Eurasia Review 2012). Also, it owns 10 percent stakes of RAO UES, largest electricity producer in Russia and satisfies 70 percent of domestic electricity needs. About 25 percent of stakes of Mosenergo (the provider of heat and electricity for Moscow) are owned by Gazprom (Gazprom 2006).

What is the contribution of Gazprom to the state budget? In 2005, Gazprom's contribution to the Russian GDP accounted for 8 percent, in addition to which its contribution to the federal budget of state accounted for 25 percent of its overall earnings (Makarova-Victor 2008: 6). However, other sources evidence that effective of 2012, its contribution to the Russian GDP accounted at 10 percent (Foreign Affairs 2013).

It is important to underline that Gazprom is major company not only in Russia. It is one of the leading energy Companies active in abroad, mostly through its representations and subsidiaries. So far, Gazprom has founded somewhat 60 subsidiaries and participates in the capital structure of almost 100 Russian and foreign companies (Makarova-Victor 2008: 27). Hence, table 2 of this thesis provides a broad overview of Gazprom's major subsidiaries and its participations in national and foreign companies.

Further, through these companies Gazprom is engaged in extraction of gas, oil and other hydrocarbons, processing, transmission, marketing, underground gas storage. Additionally, they are engaged in generation of electric power, distribution and other activities related to monitoring of pipelines, equipment supply, R&D, information processing and even banking services (Gazprom 2013).

Furthermore, as part of its activities in the marketing sector Gazprom has additionally acquired, in some instances, concluded the natural gas purchase deals with the leading energy companies in the UK, Denmark, Germany, Italy, France, Hungary and the U.S. For example, Denmark's DONG Energy, U.S. based GM&T USA Inc., GM&T France SAS, German BASF and E.ON, Hungary's Foldgaz Storage and Foldgaz Trade are some of the energy companies Gazprom has either cooperated on energy project or acquired their stakes (Gazprom 2013).

Aside from investments in its core-business sectors, Gazprom has generated acquisitions in non-core business sectors too. As part of its non-core acquisitions, it acquired telecommunication companies, mass media, trade companies, banks, insurance companies, agricultural assets, hotels and medical companies. For instance: Gazprom is the major shareholder of AB Gazprombank (ZAO). The bank has a crucial position in Russia and meets Russia's major domestic banking needs. Gazprom has founded the NPF Gazfund, the largest non-government pension fund in Russia which provides pension services to employees of Gazprom. In addition, Gazprom is involved in management of 26 cultural centers, various sports centres, medical and therapy centres in Russia. Further, insurance company of Sogaz and media holding company 'Gazprom Media' are solely owned by Gazprom (Makarova-Victor 2008: 34).

In year 2011, in terms of market capitalization, which amounts \$158.4 billion, and assets, including the core and non-core assets, Gazprom was the richest company in Russia (Makarova-Victor 2008: 35; Gazprom 2013). According to Anders Aslund

(2006), with current market capitalization Gazprom is “the third most valuable company” in the world. Gazprom is ranked the 15th biggest company of Forbes 2000 List (Forbes 2013).

#### **2.3.4 Gazprom’s affiliation to Kremlin**

Structure wise, the Board of Directors is the highest management in Gazprom. Careful analysis evidences that of 11 Board members, and at least nine members are closely associated with Kremlin, in particularity affiliated to Putin (Gazprom 2011). The table 3, which comes in enclosure to this thesis, provides detailed information on the members’ names, current and previous positions, and background.

Management Committee is the second highest in hierarchy is headed by Alexey Miller and his team who have extensive expertise in the oil and gas sectors. It is worth to mention that the Board of Directors exercises ultimate power throughout the structure up to hiring and dismissing any of the members of the Management Committee (Gazprom 2013). Provided that majority of the Board members are closely connected to Kremlin, this undoubtedly suggests that Kremlin has leverage over Gazprom’s decision making process.

On the subject of Gazprom’s affiliation to Kremlin, Makarova Victor (2008:62) argues that today Gazprom’s style of governance is being determined by its political connections to Kremlin, adding that “Where Gazprom as a company ends, Gazprom as a tool of the state begins”. Arguing that Gazprom is “a strategic asset of the Russian state”, analysts further add that, “Gazprom is Vladimir Putin's premier instrument of power” that is put in charge to progress Kremlin’s agenda and position for so long as it is required (Foreign Affairs 2012; Forbes 2013).

*Based on findings, it may be concluded that Gazprom insofar has managed to successfully transform itself as a leading energy company. Gazprom’s new market strategies have allowed the Company to successfully integrate itself into the free markets. Further, through its national and international acquisitions, market participation and capitalization, Gazprom consolidates its position in the energy markets. That being said, today Gazprom has become the major energy company in Russia and third largest energy company in the world.*

*Findings also evidence that Gazprom’s Board of Directors is the highest in the hierarchy with ultimate power within Gazprom’s structure and close affiliation to*

*Kremlin. This very well explains Gazprom's loyalty to Kremlin and its commitment to advancing Kremlin's Global Aspirations on number of economic fronts.*

### **3. Turkey's Regional Aspirations, its Energy Strategy and the National Champion "BOTAS"**

#### **3.1 Turkey's Regional Aspirations: a prospect of an "energy hub"**

*This section provides broad overview of Turkey's Regional Aspirations. In addition, the virtue of the "energy hub" in Turkey's geostrategic calculus will be examined.*

Turkey's seeks to become regional power with international significance (Turkish Ministry of Energy and Natural Resources 2010). Turkey's geo-strategic position at the nexus of Caspian, Middle Eastern and Black Sea regions is viewed to have a prospect of increasing its geo-strategic importance, primarily vis-à-vis Europe and the world at large. Respectively, Turkish Analysts argue that "energy" is seen as an effective tool for achievement of state's welfare and sustainable development (Stern 2003). In particular, Tuncay Babali (2012), prominent Turkish energy expert, argues that Turkey regards the 'energy' potential as an indispensable tool in ensuring Turkey's re-emergence as a regional geopolitical player.

Availability of world's richest hydrocarbon resources in its close vicinity yields a prospect for building of closer trade partnerships with the EU and energy producers (Onur Ergon Consulting 2013). In addition, independent analysts argue that with current pace of economic growth, Turkey can be both hydrocarbon consumer and regional actor in distribution of the energy resources (Energy Market Regulatory Authority 2012). Turkish government sources suggest that current energy prospects in its vicinity have a potential in transforming Turkey into a very significant player. That being said, Turkey is determined to take an advantage of its current geostrategic position and become a major regional player. In so doing, Turkey, on the one hand, seeks to ensure its own energy security, on the other hand, wants to transform itself into an 'energy hub' between energy producers (East) and consumers (West) (Turkish Ministry of Energy and Natural Resources 2010).

*To conclude on this section, Turkey indeed aspires to rise as a major regional power. Abundance of hydrocarbon resources in its periphery coupled with its geostrategic location provides great prospects for its transformation into an "energy hub". By*

*becoming an energy hub Turkey may be in a significant position to regulate and shape the energy markets between the hydrocarbon producers and consumers at large.*

### 3.2 Turkish Energy Strategy: its broader policy objectives towards the Caspian region and recent “Engagement Policy”

*This section analyzes Turkey’s Energy Strategy. In so doing, major objectives and policies of the Strategy will be examined.*

#### 3.2.1 Turkey’s Energy Snapshot

*Turkey depends on foreign energy imports, primarily oil and gas. Today, 26% of its energy demand is met by domestic energy resources, whereas the remaining 74% is met by imported energy mix (Turkish Ministry of Foreign Affairs 2012). Turkey imports approximately 98.3% of its natural gas from abroad, two-thirds of the Turkish natural gas imports come from Russia (Babali 2012), remaining 1,7% is met domestically (Turkish Ministry of Foreign Affairs 2012). Turkey’s proven oil reserves are sufficient to meet its consumption for a year, whereas locally available natural gas reserves can only satisfy one sixth of its consumption for one year (Jamestown Foundation 2013). Due to the ongoing process of industrialization and steady economic growth, high shares of imported natural gas are used for generation of electricity in Turkey (Deloitte 2012). This may increase country’s demand in natural gas resources (Energy Market Regulatory Authority 2013). Various sources suggest that the last decade saw increase of gas consumption in Turkey by approximately 230% (Deloitte 2012). Based on recent calculations of Turkish Analysts, country’s energy demand, until 2020, will likely account at 4 % increase annually (while EU’s overall yearly demand may increase at 1.6% (Babali 2012).*

Turkey’s current energy profile demonstrates alarming situation pertinent to its energy security. Turkish Analysts argue that Turkey’s main energy priority is to ensure its energy security. Tuncay Babali confirms that energy security is given a significant consideration in Turkey’s Energy Strategy (Babali 2012). According to Turkish Ministry of Energy and Natural Resources, the energy supply security is very important element of energy policy.

While Energy Security is agreeably a major challenge, however, as it will be explored below, this challenge is not the only issue the Strategy will be addressing.

With an objective to turn Turkey into an energy hub, thereby making use of the natural resources in its vicinity, Turkey eyes to become Europe's fourth main artery of energy supply (after Norway, Russia and Algeria) (BOTAS 2010; Turkish Ministry of Foreign Affairs 2009). In 2009, Turkey's Strategic Plan for 2012-2014 has been developed by the Turkish Ministry of Energy. Major objectives of the Strategy are (Babali 2012):

1. Reduction of Turkey's dependence on energy import monopoly
2. Tapping on domestic energy potential
3. Diversification of imported energy resources and routes

Careful analysis evidences that these major objectives are quite intertwined and they complement each other in meeting Turkey's overall goals.

*Reduction of import monopoly* aims at reducing Turkey's dependence on single energy import country (Babali 2012). Hence, aimed at ensuring the energy supply security, Turkish government has lately undertaken the legal and technical measures to launch market liberalization program. In this respect, the Law No.4646 regulating specifically the energy market has been enacted. Owing to its relevance, the law will be discussed in section dedicated to BOTAS (Turkish Ministry of Energy and Natural Resources 2010).

*Tapping on the domestic energy potential:* Government of Turkey has launched activities pertinent to the production of fossil fuels, coal, development of the hard coal, lignite reserves, renewable resources such as hydro, wind, and solar, and even use of the nuclear energy for production of electricity (BOTAS 2010; Turkish Ministry of Foreign Affairs 2009; Turkish Ministry of Energy and Natural Resources 2010). These energy commodities are seen important and aim, in one way or another, to meet Turkey's growing need for energy.

*Energy import diversification* is regarded a significant instrument in ensuring energy supply security. This entails diversification of imported energy resources, energy supply routes and technologies (BOTAS 2010).

Based on findings have been so far explored, Turkey's Energy Strategy pursues broad diversification policy. On the one hand, it aims to ensure Turkey's domestic energy security through diversification of the energy imports resources. On the other hand,

through multiplication of energy supply routes, it aims to strengthen Turkey's infrastructural capacity (Turkish Ministry of Foreign Affairs 2009).

Further, owing to its geostrategic location, Turkey had a possibility of benefiting from the Middle Eastern, Caspian, Central Asian and Russia energy resources. While Turkey made efforts to develop trade relations with most of them, however Caspian region was of particular interest for the country. Hence, following paragraph will provide short overview of country's Caspian policy objectives.

### **3.2.2 Turkey's broad Caspian objectives**

Body of literature suggests that Caspian basin fossil fuels may supplement the Persian Gulf fossil fuels on which, in the long run, America, Asia and Europe taken together are going to depend (Karaosmanoglu 2001:152).

Hence, in the early 90s Turkey viewed tapping on the Caspian energy resources as a "convenient instrument" for establishing interdependence that shall promote Turkey's welfare and these states' stability in the region (Karaosmanoglu 2001:152). Brenda Scheffer (2006:99) argues that Turkey's efforts to engage in major infrastructure projects with these countries is explained by country's thrive to upgrade its energy hub potential. By underlining importance of Caspian energy resources' in Turkey's energy calculus, Turkish scholars argue that only access to these resources and further re-routing to Europe may well make Turkey's transformation into an energy hub possible (Deloitte 2012). To this end, over the past decades, Turkey has actively sought to establish stronger relations with Azerbaijan and Central Asian states. As a result, number of natural gas and oil projects with capacity to route the Caspian and Central Asian energy resources to Europe were designed. For the sake of this thesis, only major natural gas projects are listed below:

- The Trans-Caspian Natural Gas Project is a major project that will supply Turkey and consecutively the EU with the Azeri and Turkmen gas. It is planned to circumvent Iran and Russia and help Turkey and the EU to diversify their energy imports. Project is being negotiated and the details are being elaborated (Today's Zaman 2012).
- Southern Gas Corridor is the EU led transportation line which routes the Caspian and Middle Eastern energy resources through Turkey. Among them Nabucco is given a special consideration (Euractiv 2013). It starts off in Turkey,



passes through Bulgaria, Romania, Hungary and arrives in Austria. Once constructed, it will supply Europe with 31bln cbm of gas on annual basis (Nabucco 2013). Initially, Iraq, Azerbaijan, Kazakhstan and Turkmenistan were potential contributors. Today, according to official sources, the list of contributors is not publicized.

- The Baku-Tbilisi-Erzurum is another major project that supplies Turkey with 8.8 bln cbm of kazakh and Azeri natural gas on an annual basis (Tokus 2009). This project is being negotiated.

It is noteworthy to highlight that while none of these pipelines necessitated Russia's participation, however, most of them headed towards Europe. So, were Turkey's Caspian policy objectives in tune with those of the West?

On this particular subject, Stephen Larrabee (2011: 11) argues that when it comes to Caspian region, interests and positions of Turkey do well coincide with those of the United States of America (U.S.A). The U.S. is supportive of Turkey's eagerness to become an energy corridor for Caspian energy resources because it would help EU to reduce its dependence on Russian energy resources. European sources suggest that the U.S. and the EU anxiously eye an opportunity of importing Caspian fossil fuels through Turkey. Europe's need for imported natural gas supplies is steadily growing and shall likely to sustain for the years to come. Should pipelines from Caspian get constructed, this will yield at least two positive results: (1) in terms of energy security: they will substantially help the EU to diversify sources of gas supplies; (2) in terms of geostrategic implications: stronger economic and political relations with Turkey and Caspian countries would be established (Weiss/ Larrabee/ Bartis/ Sawak 2012: 3).

While Turkey's Caspian policy objectives did not conflict with those of the West, did they conflict with those of Russia? Owing to abundance of energy resources, Caspian and Central Asian regions are of strategic importance to Russia. Speaking of which, it would make sense to cite the fifth plank of former Russian President Dmitry Medvedev's Five Planks Doctrine that was further integrated to the Russian Foreign Policy: "Like other countries of the world, Russia has privileged interests in regions, in which friendly states are situated." By friendly states he actually means the states of the former Soviet Union, including Central Asia and the Caspian countries (Eurasia Information and Analytic Portal 2011).

According to Helen (2010: 24), by using its “strategically highly advantageous” position in the Caspian region and Europe, Russia wants to continue to dominate the Eurasian energy market. More precisely on that, Turkey’s entry to the “market-priced Caspian gas” would surely undermine, on the one hand, Russia’s leverage on “pricing monopoly over EU-bound gas”, and on the other hand, lessen Russia’s position as the EU’s main natural gas supplier. In addition, Mitat Celikpala (2013), Turkish Energy Expert, argues, “Russia aims to keep its near abroad, EU markets and the energy network under its control.” To make it possible, Kremlin uses all recognizable methods and maneuvers availed to it as in cooperation only according to terms of Russia, creating dependency and dominating foreign domestic markets, constructing purchasing distribution as well as storage lines in most Eastern European countries and elsewhere possible, building new pipelines as counterweight to others, price discounts offered to the most of key EU countries so as to gain their support for Russia’s presence in Europe.

Accordingly, Russia acted on broad range of fronts to counterweight the Turkish efforts to access Caspian energy resources. To begin with the Central Asian states, in year 2007, Russia finally succeeded in establishing a strong alliance with Kazakhstan and Turkmenistan. A gas deal was signed on expansion of the pipeline network that once existed during the Soviet times. This pipeline carried 10bcm of gas per year to Russia. Additionally, they agreed to construct the additional branch of a gas pipeline (20bcm per year) that shall run through the Caspian Sea (Heinrich 2008: 155).

Further, Russia contributed to revival of a dispute between Iran, Azerbaijan and Turkmenistan (Deloitte 2012) over who owns the Caspian Sea sources coupled with a lack of due funding for execution of pipeline projects, construction of various pipelines were at times stalled, cancelled or continue in a slower pace (Bacik 2001: 7). For example, Trans-Caspian Gas Pipeline Project was over time stalled; The Baku-Tbilisi-Erzurum designed to benefit from world’s 4th largest natural gas reserves found in Turkmenistan and Kazakhstan is pending (Turkish Ministry of Foreign Affairs 2009).

Further, West-led Nabucco which was initially designed to route the Caspian resources to the heart of Europe, now continues on a smaller pace given that Kazakhstan and Turkmenistan (some of the major energy contributors) are not able to participate. Though, Azerbaijan is still committed, however, it does not have sufficient gas to make the pipeline fully operational. Iran’s further contribution is not possible as it is

embargoed by the U.S. Iraq is undergoing civil disturbances and infrastructural problems (Hurriyet Daily News 2012). Major EU players as in Germany, Italy, France, owing to their “special” trade relations with Russia, refrained from further funding of Nabucco (Helen 2010:24). Last but not least on this, Russia’s South Stream, which many believed has arrived as counterweight to Nabucco, is now being launched.

Examples listed so far have clearly demonstrated that by sidelining Russia, Turkey did not progress much in pursuit of Caspian objectives. Are there limitations that originated independently of Russia’s engagement?

However, over the past decades, Turkey initiated intensive negotiations with Qatar on possible transmission of natural gas to Europe. However, Qatar’s LNG plans did not coincide with Turkey’s natural gas pipelines. Another possibility was to route Iraqi natural gas to Europe. However, owing to the instabilities in Iraq, Turkey’s plans delayed for an uncertain period of time (Deloitte 2012). Turkey-Iran trade partnership are also somewhat strained. Countries share numerous disagreements over the gas price. The case was even taken to the International Arbitration for further resolution (Celikpala 2013). In short, Turkey’s policy towards the Middle Eastern energy producers did not produce positive results.

By challenging Turkey’s overall energy hub aspirations, EU experts argue that the EU-Turkey accession negotiations alone yet hold another huge limitation. EU’s intentions on further enlargement is not clear and negotiation with Turkey is not finalized. Hence, scholars are convinced that Turkey’s energy card cannot downplay the “political and security” issues pertinent to country’s EU membership (Triantaphyllou/ Fotiou 2010: 60).

In terms of reputation in the energy sector, Turkey does not seem to have a flawless one. Sources evidence that there is a conflict between how much gas Turkey needs and how much it actually can afford. As cases evidence, Turkey often disputes with Russia, Iran and Azerbaijan, Turkey’s major gas suppliers, over the gas price. Reiterated disputes do hamper its reputation and make it very unreliable gas buyer. In addition, Turkey’s technical capability in the energy sector is questioned. Turkey recently failed to administer the delivery of the natural gas through Interconnector Turkey-Greece Pipeline (ITG) (Triantaphyllou/Fotiou 2010:57). It must be noted that failure to administer in a due manner to the main pipeline which connects Turkey to Europe is yields another major limitation.

As findings suggest, due to political, economic and technical limitations explored above Turkey's path towards realization of its energy hub aspirations proved to be limited.

### 3.2.3 Turkey's Engagement Policy?

Provided that isolation of Russia yielded a number of political and financial problems, these coupled with Turkey's technical and infrastructural incapacity have substantially challenged its plans to move beyond just being an energy transit country to becoming a game-changer in the global energy market. This suggested Turkey to depart from its previous policy and amend it with the new one. In this respect, Mitat Celikpala (2013) argues that in terms of policy preferences, now Turkey departs from projects that necessitate "cooperation with consumers" towards "collaboration projects with producers". For instance, Turkey's support for Azerbaijan's Trans-Anatolian gas pipeline (TANAP) as opposed to Nabucco, or Turkey's support for Russian South Stream as opposed to Nabucco is the best illustrations of this argument.

Indeed, Turkey is departing from its initial policy objectives towards embracing collaborations on different levels with both energy producers: Russia, Iran, Caspian basin, Central Asian and Middle Eastern countries, and energy consumers: Europe. Turkey understands that for it to become an energy hub, it needs to upgrade its energy infrastructure, technical capacity, attract investments for its energy sector, allow construction of pipelines and etc. Cooperation with just few number of countries will not help Turkey come closer to what it aspires. Engagement of various actors and creating venues for trade on broad fronts is what Turkey is heading towards in term of its Engagement Policy.

*To conclude on this sub-chapter, it may be said that Turkish Energy Strategy is very much in place. Major objectives and policies of strategy complement Turkey's Regional Aspirations. In particular, diversifying of energy imports is essential part of the Strategy. It is projected to ensure Turkey's energy security and avoid dependence on single energy provider. Also, diversifications of routes aims to, first of all, build on Turkey's infrastructure for prospective energy hub project, secondly, facilitate economic growth in Turkey.*

*Unlike previously, Turkey employs the Engagement Policy to advance its energy plan. By embarking on business collaborations and joint ventures with various energy producers and energy consumer countries, Turkey wants to upgrade its technical and*

*infrastructural capacity, as well as allow flow of investments to the Turkish Energy market. Through implementation of this policy, Turkey hopes to attain its objectives pertinent to "energy hub" and transform itself into a regional player with leverage of regulating the Eurasian energy market.*

### 3.3 Evolution and transformation of BOTAS as Company: its structure, business strategy, national and international outreach, and close affiliation to the Turkish Republic

*Objective of this section is to examine tools and mechanisms of BOTAS, as well as pointing out transformation of BOTAS as Company.*

#### **3.3.1 Evolution and transformation of Petroleum Pipeline Corporation (BOTAS)**

*This section will provide an overview of evolution and transformation of BOTAS as Company.*

In year 1974 BOTAS was established as part of inter-governmental agreement concluded between Turkey and Iraq. BOTAS's initial task within this framework was to construct and operate of the Kirkuk-Ceyhan Oil Pipeline (Onur Ergan Consulting 2013). Hence, until year 1986 its activities included transportation of crude oil from Iraq via Turkey to Mediterranean through pipelines (Report Linker 2010).

However, with an urge to tackle Turkey's increasing need for diversified energy sources, BOTAS's original mandate of transporting crude oil was now altered to additionally cover the natural gas transportation and trade activities (BOTAS 2013). Thus, in year 1987, BOTAS was now mandated to carry out natural gas transportation and various similar trade activities. In early 90s by the Decree of Natural Gas Utilization of Turkey, BOTAS was granted monopoly rights to import, distribute, sale and price the natural gas in Turkey (Onur Ergan Consulting 2013). This time period coincided with Turkey's Caspian policy objectives.

Further, an increase of its capital in 2002 from TL 750 Trillion to TL 1.300 Trillion (entered into effect with the Decision of the High Planning Council No. 2002/T), allowed BOTAS dominate Turkish natural gas market. Among 8 countries with whom BOTAS had purchase contracts with, Russia topped in terms of supply of natural gas volumes (BOTAS 2013).

However, in early 2000s as part of Turkey's broad EU commitment coupled with an effort to comply with the EU's Internal Energy Market regulations, Turkish state adopted the Natural Gas Market Act which necessitated restructuration and liberalization of the Turkish Energy Market (Gazpromexport 2013; Turkish Ministry of Foreign Affairs 2009).

Consecutively, in year 2001 the Natural Gas Market Law No. 4646 was enacted. Law sought to replace closed market to a new open market structure. Major objectives of the law were development of financially sound and transparent energy market in capacity to operate in a competitive environment as well as attraction of investments (Deloitte 2012). It must be underlined that enactment of law well coincided with a period of time when Turkey's geostrategic considerations were undergoing substantial alteration and when Turkey's Engagement Policy was being developed.

Further, the legal framework of the law allowed for regulation of Turkish natural gas market and covered import, transmission distribution, storage, marketing, trade and export of natural gas (Deloitte 2012). Accordingly, an independent authority Energy Market Regulatory Authority (EMRA) was established with a mandate of regulating Turkey's energy market, including natural gas, electricity, oil and LPG. Today, EMRA is absolutely independent regulatory authority, especially free from political and public influence of Turkish Government, with administrative and financial autonomy. Enactment of law and establishment of EMRA have influenced BOTAS in two ways: firstly, BOTAS was stripped of its monopoly rights over the natural gas market. Its regulatory mandate was now transferred to EMRA (Onur Ergan Consulting 2013).

Below is a summary of key provisions of law:

BOTAS's duties on regulations of tariffs, delivery rules, gas quality, gas supply were transferred to EMRA (Onur Ergan Consulting 2013).

Further, annual natural gas imports by any Turkish company were limited to 20% of the national gas consumption forecast determined by the EMRA; that being said, BOTAS was prohibited to do natural gas purchases until its imports fell down to 20% of the national consumption. Also, until year 2009, BOTAS was urged to transfer, in part or in whole, of its rights and obligations on existing natural gas purchases or sale contracts to other actors of Turkish energy market (Onur Ergan Consulting 2013). That being said, no new gas purchase contracts could be concluded by any Turkish

import company with those countries who have already signed contracts with BOTAS (Interview with BOTAS Official 2012).

Also, after year 2009, the law urged that BOTAS would restructure from vertically integrated to horizontally integrated legal entity. This also suggested that BOTAS would become regular market player and operate under equal conditions with other private sector companies (Deloitte 2012).

Further, the law allowed BOTAS to continue to own the “existing and planned natural gas transmission network” (Onur Ergen Consulting 2013). In this respect, various pipelines necessary for transporting crude oil and natural gas in and across Turkey remain in possession of BOTAS. For instance, major 11,332 km of natural gas pipeline with capacity to supply natural gas to 66 cities of Turkey is under BOTAS’s operation (PressGazette Newspaper 2013). Further, the law welcomed construction of the new pipelines by transmission companies, however, once built, they should be connected to the existing lines under BOTAS’s operation (Onur Ergen Consulting 2013). In the future, BOTAS’s possession and operation of the major pipelines in Turkey may create leverage over other private sector companies. It also can create situations of “conflict of interest”.

There is a great ambiguity vis-à-vis reduction of BOTAS’s monopoly in the Turkish market. Turkish Experts claim that as a result of this law, BOTAS’s presence in the Turkish natural gas market has to an extent reduced (Onur Ergen Consulting 2013). Other sources evidence that decline of BOTAS’s share in the natural gas market finally took place. In the interim of 2007-11 BOTAS’s domestic sales significantly dropped in favour of private sector (Energy Market Regulatory Authority 2012). Beginning from year 2011, BOTAS’s 4 bcm gas import contract with Russia has been transferred to four Turkish private companies: Akfel Gaz, BosphorusGaz, Kibar Holding and İndex Holding who have now signed Contracts on imports of Russian gas to Turkey via the Western Route (Journal of Turkish Weekly 2012).

However, the EU is not convinced and does not see tangible progress in reduction of BOTAS’ market share (EC 2012). It is noteworthy to state here that the process of transfer of gas purchase contracts is progressing slow as some structural reasons pertinent to the market tend to create certain obstacles (Energy Market Regulatory Authority 2012). Gokhan Bacik (2001: 7) argues that while privatization is underway,

however, it is highly inefficient and is impeded by bureaucratic and technical challenges.

It may be generally argued that Turkish government's pursuit to liberalize the Turkish energy market makes sense. This is good for attraction of investment and also integration into the free market system. In addition, reduction of BOTAS's monopoly and its transformation into a regular market player is also understandable. What is not understandable is that existing law does not urge BOTAS's privatization. According to Taner Yildiz, Turkish Minister of Energy and Natural Resources, Turkish state does not intend to privatize BOTAS, not even open part of its shares for privatization (Energy World 2013).

Can it then really be restructured and become horizontally integrated? When owned by state, to what extent BOTAS's transparency may be ensured? During competition in the energy market, can impartiality be sustained? These and similar questions remain open.

However, on alternative note, the government sources inform that when alternatively viewed from broader perspective and with particular reference to Turkey's Regional Aspirations, BOTAS, owing to its past performances, structure, expertise and loyalty to the Turkish state, is seen as indispensable instrument in transforming the country into an "energy hub" (Turkish Ministry of Energy and Natural Resources 2010; BOTAS official 2012). This demonstrates that Turkish government, despite market liberalization, wants to keep BOTAS under its control. Given that with market liberalization state intervention into the market is not favored, perhaps state wants to shape the market through BOTAS?

These and similar questions remain open. Turkish Government itself is at odds lacking clear idea on BOTAS's prospective engagement in Turkey's hub plans.

*To conclude on this section, three important issues should be underlined:*

*Turkey's thrive for liberalization must be viewed as a complimentary element to Turkey's broad Engagement Policy. Turkey develops new strategies and instruments to facilitate its integration into the free market system. Liberalization program was invented as part of this pursuit. By creating the new energy market in its territory, Turkey seeks to become significant actor of the Eurasian market.*



*Over the past decades BOTAS was instrumental in fulfilling Turkish state's political ambitions. Until year 2001, BOTAS literally dominated Turkish energy market. However, as a result of Turkey's Market Liberalization process BOTAS was forced to undergo structural changes. The Company was stripped of its monopoly rights, and its market shares are now slowly reducing. However, unlike regular market player, it still holds certain infrastructural assets that increase its leverage vis-à-vis other market players. Although, many argue that it has become a regular market player that operates on equal terms with other private sector representatives, however, it has not fully transformed itself from state owned company to an active energy Company.*

*Further, as findings suggest, Turkish state seems to be lacking a clear guidance on how to proceed with its monopoly over BOTAS. On the one hand, market liberalization is a necessary attempt to attract investments. However, liberalization alone on the other hand challenges BOTAS's further role in the market and Ankara's energy hub plans. Due to existent predicament, BOTAS's engagement in advancing Ankara's regional aspirations may well take place; however, it is only a matter of time and circumstance if BOTAS's engagement will turn to be full-fledged or merely symbolic.*

### **3.3.2 BOTAS's Business Strategy**

*This section discusses BOTAS's overall business strategy, its objectives and goals.*

With broad vision of making Turkey an energy corridor for oil and gas, it aims to substantiate Turkey's leading role in the region. Respectively, its mission is to basically facilitate supply of energy to national and international markets through a body that is both financially and organisationally sound. In so doing, it aims to create the "competitive advantage" through knowledge, productivity in correspondence with the international quality standards (BOTAS 2013).

Further, similar to Gazprom BOTAS considers fossil fuels as its key business sectors. Hence, with broad reference to its vision and mission, its key strategic goals include but are not limited to:

- supply the European market with the Caspian and Middle East energy resources;
- contribution to creation of liberalised market conditions, thereby having an effective role as well as independent voice in the oil and natural gas market;

- supply of the hydrocarbon energy supply to Turkey at the world prices, thereby ensuring customer satisfaction;
- becoming a global player by meeting the European and global demands with its regional energy resources and through development of strategic collaborations;

In addition, the Company plans to acquire a solid position in the world energy markets. In this respect, building strategic cooperation with energy rich countries, as underlined in the Energy Strategy of Turkey, is Company's priority goal (BOTAS 2013).

*Based on findings, it may be concluded that Company's business strategy is actually streamlined according to Turkey's Aspirations and Turkey's Energy Strategy (BOTAS 2010). In fact, BOTAS makes it clear that its vision is to serve and aide Turkey in attaining those aspirations. Turkey's Engagement Policy is very much reflected in BOTAS strategy as in solid partnerships with EU and energy producing countries.*

### **3.3.3 BOTAS from within: its organizational structure, national and international outreach, and affiliation to the Turkish state**

*This section will provide an overview of BOTAS's structure, field of expertise, projects serviced, domestic capacity and international presence. Also, its affiliation to the Turkish state will be in particular examined.*

BOTAS is one of the major transportation Companies that is engaged in the field of transportation of crude oil and natural gas transportation, conclusion of trade activities and coordinating hydrocarbon pipelines (BOTAS 2013).

Structure wise, it is vertically integrated company (with a prospect of horizontal integration) and is currently headed by two top positions: the Chairman and the General Manager. BOTAS operates with 27 departments and total of 2790 employees. Respectively, of 27 departments that are active within BOTAS, only three are directly engaged in purchase, sale and transmission of natural gas, and they are: Natural Gas Purchase and Contract Release Department, Natural Gas Marketing and Sales Department, Natural Gas Operations Management (BOTAS 2013).

In Turkey, BOTAS is the major state owned company active in the natural gas market of Turkey. Since its establishment until recent years, it preserved the leading role and monopoly in the natural gas market of Turkey, internationally its role remains quite modest. Findings suggest that unlike Gazprom, BOTAS does not even make to the Forbes "The World's Biggest Public Companies - 2000" List (Forbes 2013).

Domestically, BOTAS is active in oil, natural gas, LNG sectors. It owns and operates the biggest 11,332km long natural gas pipeline that supplies 66 cities of Turkey with the natural gas (NewStateman 2012). In addition, the natural gas purchase deals concluded prior to enactment of the Law 4646 are still under BOTAS's service (BOTAS 2013). They are:

- Main Gas Transmission Line between Russia and Turkey, commenced in 1987;
- Turkey-Greece natural gas pipeline, commenced in 2007;
- Azerbaijan-Turkey natural gas pipeline , commenced 2006;
- Eastern Anatolia natural gas transmission line between Iran and Turkey, commenced 2001;
- Samsun-Ankara natural gas transmission line between Russia and Turkey, commenced in 2003;

Additionally, it operates Marmara Ereğlisi LNG Import Terminal which is, since 2011, fully operational with capacity of receiving LNG imports up to 685.000 cum/hour. Aside from these projects, it distributes imported natural gas resources, through domestic lines, to 66 cities of Turkey (BOTAS 2013).

Unlike Gazprom, BOTAS's international outreach is quite limited. So far, it has engaged in acquisition of partial shares of internationally significant operators, corporations and gas pipeline projects. Below provided are the details:

*BOTAŞ International Limited (BIL)* petroleum operator that operates in exploration, production, transport, stocking, marketing of oil as well as import, transport, delivery, sales of natural gas and LNG. Ninety nine percent of BIL shares belong to BOTAS i.e.Turkish Republic (BOTAS 2013).

*TURUSGAZ* Contracting, Marketing and Trading Corporation is company active in natural gas market and is an affiliate company of BOTAS. Thirty five percent of company's shares are owned by Gama-Gazprom Company, joint venture of Gama A.Ş. and Russian Gazprom since 1993. The rest shares belong to BOTAS (BOTAS 2013).

*NABUCCO* Gas Pipeline International GmbH is a gas pipeline. BOTAS owns 16.67% of its shares. It is equally owned by Austria, Germany, Hungaria, Bulgaria and Romania. It starts off in Turkey, goes through Bulgaria, Romania, Hungary with a final stop in Austria (Nabucco 2013).

*Affiliation to the Turkish state:* BOTAS is entirely owned by the Turkish Republic. It functions within the broad framework of the Ministry of Energy and Natural Resources. Hence, it is affiliated as one of the attached institutions of the Ministry (Turkish Ministry of Energy and Natural Resources 2010). BOTAS's Board of Directors are also affiliated to the Turkish state. In other words, Turkish government exercises ultimate power over decision making of BOTAS.

Author's interview with one of the BOTAS Managers revealed that BOTAS, as a Company, has no influence over the Turkish state's decisions. BOTAS thus does not determine which markets to enter and operate in. It only follows the state decisions taken at the political level. Its activities so far have always been to implement state level decisions and progress on state led agendas.

*To conclude on this chapter, BOTAS is fully state owned pipeline and gas distributing company with close affiliation to the state. Its domestic outreach is quite influential; however, internationally it is still limited. Most of the natural gas projects it serviced were coming out of Turkey's bilateral partnerships with Iran, Russia, Azerbaijan and the EU.*

*Structure wise, BOTAS is in process of transforming itself into a regular market player in capacity to trade within the free markets. However, it lacks decision making mechanism and is often used as instrument to advance Ankara's regional politics.*

#### **4. Russian-Turkish Energy Trade Partnership: evolution and transformation of bilateral trade partnership, proponents, investments, trade turnover, and the state of current partnership -“interdependent” and “pragmatic”**

*This chapter shall provide broader view on evolution and development of Russian-Turkish trade relations.*

##### **4.1 Evolution and development of trade partnership**

Trade partnership of Russia and Turkey commenced with an intergovernmental agreement concluded in year 1984. In consecutive years, gas purchase contract between BOTAS and Gazprom on provision of natural gas supplies through Western

Line (transiting through Ukraine, Moldova, Romania and Bulgaria) was accordingly concluded (Gazpromexport 2013).

As Volkan Vural, former Turkish Ambassador to Moscow describes it, those were the 'golden days' of cooperation during 'perestroika' and 'glasnost' period in the framework of which for supplied Russian natural gas Turkey paid in export goods and services. He asserts that bilateral relations were strategically and economically important for Turkey and were based on the win-win situation (Court Reporting –Turkey 2009).

Until the year 1997, bilateral relations persisted on a slower pace. In this year, second major gas pipeline agreement was signed between Ankara and Moscow. According to Eşref Yalinkiliçli (2012: 3), Turkish Analyst, this project prompted deepening of trade relations. He further argues that this deal was not only 'the core' of bilateral energy cooperation but it also created conditions for unprecedented Turkish-Russian rapprochement.

So, who were the proponents of this partnership? What is the contribution of Gazprom and BOTAS to development of Russian-Turkish trade partnership?

Owing to specificity of Gazprom-Kremlin relations, findings suggest that on part of Russia, proponents of bilateral trade were small group of advocates in Kremlin and their affiliates in Gazprom.

However, in Turkey the "strong advocates" of Blue Stream project in Turkey, according to Gokhan Bacik (2001: 8), Turkish Energy Expert, were Bülent Ecevit, former Prime Minister, prominent Social Democrat and Cumhur Ersumer, former Minister of Energy and Gunes Taner, former Minister of Economy, both affiliated with Turkey's Motherland party. Suat Kiliniklioglu (2006), Turkish Scholar, adds that key proponents of this trade partnership were those Turkish companies who operate in Russia with investments that worth billions USD and are the members of the Union of Russian – Turkish Businessmen (RTIB), Turkish-Eurasian Business Council in Istanbul and the Turkish-Russian Business Council. They are Enka, Entes, Gama, and Tekfen -Turkish private sector's most powerful companies with "enormous political clout". It must be noted that following implementation of this project, Gama formed joint venture with Gazprom in energy sector, and BOTAS was put in charge to distribute the Russian gas to Turkey (Bacik 2001: 4).

Was BOTAS among those proponents at all? Did it pursue its own interests too? Did it somewhat influence Turkey's decisions to further develop bilateral trade relations with Russia? In an interview, BOTAS's high ranking official (2012) revealed that BOTAS's role in development of Russian-Turkish Relations was limited to completion of technical tasks. BOTAS was and is the company that acts in the framework of political decisions taken by the acting Government of Turkey.

Taking into account BOTAS's modest role in shaping Russian-Turkish Relations and owing to prospective trade opportunities in Russia, Turkey based business conglomerates with influence over political decisions have driven bilateral trade relations to another level of close trade partnership.

Over time, Russian-Turkish Relations have grown beyond cooperation in the gas sector and have now transformed into "multifaceted cooperation with multidimensional partnership". Tuncay Babali (2012) regards economic side of Russo-Turkish relations to be one of the significant factors that moved bilateral relations forward for many years and continue to do so (Babali 2012). In the framework of this partnership, Turkish private sectors' interests to expand in the Russian market met with Russia's energy interests and other expansion policy related objectives in Turkey. Hence, Turkish analysts argue that advocates of this partnership on both sides share similar political culture, similar trade mentality and treat each other with high respect (Kilinklioglu 2006).

It is important to note that while initial focus of the research was to look at both countries' energy investments, however, in light of their growing trade partnership it would be relevant to shed light on countries' investments in the other sectors beyond the energy so as to gain a broader picture on their motives at large.

#### 4.2 Investments

Russia, aimed to expand its market position in Turkey, have participated in the privatization of state assets (Weitz 2010: 75). According to Aydın Adnan Sezgin, Turkish Ambassador to Russia, Russian investment in Turkey is predominantly poured into energy, then communication, banking sectors and the iron industry (Turkish Ministry of Economy 2013). For instance, Russian Alfa Group bought share of Turkey's premier GSM operator Turkcell (Kilinklioglu 2006). In year 2012, Russia's Sberbank, which is in fact country's largest lender, acquired Turkey's Denizbank's 99.85% shares

at a price \$3.87bln. Analysts argue it is Sberbank's biggest acquisition in Europe (Voice of Russia 2013). AS ITAR TASS evidences, German Gref, Sberbank CEO has said, "The bank is Turkey's second-biggest lender in the agriculture sector, and we hope to obtain a good multiplying effect through our work with this asset. We can transfer some of our modern methods there, and there is a lot that we can transfer from there to Russia, especially as regards operations in the agriculture sector and work with small and medium-sized enterprises" (ITAR TASS News 2013).

Also, recently Turkish privatization tenders aroused Russia's keen interest (Kilinkilicli 2006). Voice of Russia informs that Russian major carmaker GAZ, opting for a joint venture with Mersa Otomotiv in Turkey, has recently started sales of light commercial vehicles in Turkey. In year 2013, the Joint Venture plans to sell 2500, each for \$20,000 (Voice of Russia 2012).

The Magnitogorsk Iron and Steel Works (MMK), Russia's largest enterprise in steel industry with 20% of market share in domestic market, invested \$1 billion in Turkey to construct a plant with production capacity of 2.6 million metric tons of steel. Sources evidence that the MMK also acquired 50% plus one share of Atakas Metalurji for \$102 million (Investment in Turkey 2013).

In the words of Eşref Yalinkilicli (2012: 2) today Russian investments also poured into mining, infrastructural industries and tourism. Each year over three million Russians travel to Turkey. Russians tourists are the second major tourist group for Turkey (after German tourists). He further notes that, for various reasons, majority of Russian investors do prefer to invest in Turkey through Turkish partners by often opting for unofficial joint ventures. For example, chain of Rixos Hotels in southern part of Turkey- is operated by Turkish partners, however, are owned by Russian investors.

Turkish investments in Russia are predominantly concentrated in the construction sector, then foodstuff, retail, glass, and electronics industries (Yalinkilicli 2012:2). Turkish construction companies that are active in Russia, for the most part, are engaged in building airports, hotels, and other commercial projects (Weitz 2010: 72). As Turkish Foreign Ministry confirms it, Russia has become the most desired and important country for Turkish construction contractors (Turkish Ministry of Foreign Affairs 2013). Today around 2,000 Turkish private companies are active in Russia and they have undertaken 1,396 projects in Russia which have surpassed \$38.5 billion (Today's Zaman 2013). According to Aydın Adnan Sezgin, Russia is a huge profitable

market for Turkish contractors. Today, they are involved in construction of the Student Olympic Games 2013 in Kazan, the Winter Olympic Games 2014 in Sochi as well as in construction of the Football World Cup 2018 facilities in various cities of Russia. (Turkish Ministry of Economy 2013).

Based on findings yielded so far, it may be said that Turkish private sectors' influential conglomerates are interested in deepening of Russian-Turkish trade relations for several reasons. While these companies, through their influence on government, allow Russia to expand in Turkish market on various sectors, they in return are provided lucrative business opportunities in Russia.

In order to gain an idea on countries' Foreign Direct Investments (FDI) so as to understand their actual contribution and presence in each other's markets, it is necessary to look at following: Turkey's 2011 FDI (stock) in Russian market totalled at \$7.3 billion and was poured into textile and ready-to-wear garments, food & beverages and construction sectors. As part of a growing trade partnership between Turkey and Russia, over the course of a past decade, Turkey's presence in the Russian domestic market has significantly risen. In year 2011, the Russian FDI (stock) in Turkey was estimated at \$20.3 billion (Turkish Ministry of Economy 2013).

Findings insofar suggest that both countries and their respective companies have participated in acquisitions of assets and completion of significant projects in both Russia and Turkey. It must be noted that Russia's contribution, as opposed to Turkey's contribution, is substantially larger. Hence, it would be useful to have a look at their trade turnover to understand which of the sectors generates a greater wealth.

*Trade turnover:* according to Vladimir Ivanosky, Russian Ambassador to Turkey, in year 2012 trade turnover, gaining 14% of increase compared to the previous year, reached \$36 bln. However, there is no detailed breakdown as to how much of this amount belongs to Russia or Turkey. What is so far clear is that in the coming years, respective countries plan to increase the annual trade for as much as \$100bln (The Voice of Russia 2012).

Tuncay Babali (2012) argues that in year 2011 overall trade between countries has reached \$30 billion. Of this amount, he argues, only \$6 billion accounted for Turkish exports, and \$24 billion were imports from Russia. The energy component dominated this figure.



Specifically, on part of Russia, the top import categories were natural gas (\$10.8 billions), crude oil and fuel products (\$4.4 billions) and iron and steel (\$2 billions). Turkey's three main exports categories the same year included textile, fabrics and manufactured articles (\$1.09 billion), fruits and vegetables (\$942 million) and road vehicles (\$831 million) (Turkish Ministry of Economy 2013).

Despite steadily peaking trade turnover between Russia and Turkey, as Richard Weitz (2010) argues, persistent trade imbalance is in fact in Russia's favour provided that Russian hydrocarbons account "three-fourth of Turkey's imports from Russia". Sources suggest that trade imbalance persists due to a fact that Turkey has a deficit in merchandise trade (Turkish Ministry of Economy 2013).

Based on findings it may be said that their trade partnership, embracing broad range of sectors, yields substantial positive results as in trade turnover. Provided that fossil fuels are the largest contributor to their overall trade turnover, in light of countries' Regional and Global aspirations, will it be correct to assume that energy partnership is a cornerstone of this partnership?

*Energy is a cornerstone of partnership:* body of literature suggests that while bilateral trade relations have been being evolved covering tourism, banking, construction and other sectors, however, energy dimension prevailed the most in this trade partnership. In this regard, Torbakov (2007:6) argues that bilateral relations yield significant results provided the sheer amount of energy trade turnover as well as corporate and personal interests of proponents. Accordingly, Eşref Yalınkılıçlı (2012:2) holds similar view and claims that energy constitutes the engine of this Russian-Turkish economic collaboration.

By arguing that energy dominates Turkish strategic thinking, Tuncay Babali adds that this finds its reflection in Turkey's relations with Russia (Middle East Forum 2012). Suat Kiliniklioglu (2006) similarly argues that the energy element of trade partnership continues to play significant role for Russia. For example, Turkey is Russia's second major consumer market and imports 65 percent of its natural gas from Russia. Should this trend persist, the need for energy may rise up to as much as 80 percent. By pointing out the significant role of energy in maintenance of effective partnership with Turkey, Putin said: "Of course, one of our big cooperation areas is the energy sector", "Russia is always ready to give our Turkish partners a shoulder to rely on at difficult

times, and if there are any glitches with energy supplies from other countries, we will increase our deliveries at the first demand” (President of Russia 2013).

As findings suggest, energy element so far dominates their trade partnership. While both Turkey and Russia are interested in energy partnership, however, Russia, owing to its large investments, is overtly interested in so doing.

Further, having had analyzed their overall investments, to understand their energy partnership and its outreach, it is relevant to explore their investments in energy sector.

#### 4.3 Investments in energy sector

*Prior to providing the results of the research, it should be underlined that as part of this research it was discovered that Turkey has not made investments in energy sector. Therefore, in this section, Russia’s investments will be examined.*

As it was discussed in the previous chapters, countries’ trade rose with an intergovernmental agreement of 1984 on supply of 6 bcm per annum Russian natural gas through the Western Line (transiting through Ukraine, Moldova, Romania and Bulgaria) to Turkey. Agreement was effective for 25 years and covered 1987-2011 years. (Gazpromexport 2013). However, due to limitations as in lack of information on overall cost of this pipeline, Russia’s actual investments cannot be traced at this time.

Blue stream - the second largest gas pipeline project that supplies Turkey with additional gas. It is also the second huge cooperation between Gazprom and Italian Eni who has agreed to construct the pipeline in partnership with Gazprom. Within the framework of this inter-governmental agreement, venues were launched for years long partnership of Gazprom and BOTAS (Gazprom 2013). In 1998, a long-term contract for delivery of an additional 8 billion cubic meters per year to this region through 2022 was signed (Gazpromexport 2013). The overall cost of the project, according to Gazprom estimates, was estimated at \$3.2 billion (Information and Analytics Center 2003).

Further, the Blue Stream pipeline was designed to deliver natural gas directly to Turkey through the Black Sea. This project allowed Russia to tap on two objectives: increase gas supplies the growing Turkish energy market, at the same time, circumvent unwanted transit countries as in Ukraine and Belarus (Gazprom 2013).

With 1,213 kilometres long pipeline Gazprom agreed to deliver, within 25 years of time span, 365 billion cubic meters of gas (16 billion cubic meters of gas per annum). So far, 51 billion cubic meters have been supplied (Gazprom 2013).

Russia planned to extend Blue Stream project as in Blue Stream II to supply Syria, Lebanon, Cyprus and Israel with Russian natural gas. Due to the latest unrests in Syria, crisis in Israeli-Turkish relations coupled with Putin's priority project South Stream have somewhat stalled negotiations on realization of Blue Stream II. However, experts are certain that Russia and Turkey may come back to the table of negotiations over this project soon (Yalinkilicli 2012: 3).

Aside from pipelines into which Russia has invested quite a lot, there are other dimensions it may be necessary to look at. Further, according to Mert Bilgin (2010:88), Russian firms were keen to invest in acquisitions and shares in Turkey's domestic energy sector. Turusgaz-the largest natural gas distributor in Turkey was acquired (Makarova-Victor 2008: 77). It is a joint venture of BOTAS, Gama Holding and Gazprom. Gazprom and Gama own 35% of share (BOTAS 2013). Also, Bosphorus Gaz Corporation – gas transporter with 3% of share in the Turkish Market were acquired by Gazprom's subsidiary -Gazprom Germania (Kilinklioglu 2006). It currently owns about with 71% of share (Bosphorus Gaz Corporation 2013).

In addition, Turkey and Russia have reached an agreement to construct the LNG terminal at Ceyhan bay. Project entails collection of Russian and Azerbaijani gas in Ceyhan prior to realization in international markets (Kilinklioglu 2006). The cost of the plant is not disclosed.

During his recent visit to Istanbul in December 2012, Putin declared that construction of \$20 billion worth Nuclear Electricity Project in Akkuyu was underway (The Voice of Russia 2012). This power plant, according to Erdogan, is the largest investment project in Turkey (ITAR TASS News Agency 2012).

Further, by pointing to Turkey's willingness on construction of this plant, Richard Weitz argues that one of many purposes of Erdogan's visit to Moscow 2010 was "to jump-start the stalled efforts to extend the Russian-Turkish energy partnership into the nuclear realm". Soon, joint declaration on nuclear energy cooperation had been signed and it was then transformed into a full fledge consortium of Atomstroieexport, including Inter RAO UES (unit of the state-run Rosatom nuclear energy corporation) and Park

Teknik, the largest private coal producer in Turkey (Weitz 2010:69). By referring to Turkey's interest in seeing Russia in its 'energy orbit', Eşref Yalinkılıçlı argues that Russians were even granted rights for construction of the nuclear power plant without due tender (Yalinkılıçlı 2012: 4).

Russia's prospective Nuclear Power Plant in Akkuyu, as some analysts suggest, may further bolster Turkey's dependence (Kardas 2010). However, this project is seen as a way to balance and diversify Turkey's domestic resources (Weitz 2010:65). However, vis-à-vis the speculation of prospective Nuclear Power Plant in Akkuyu, Minister Yıldız has said that construction of such plant will not increase rather decreases Turkey's energy dependence on Russia (Anadolu Agency 2012).

Research findings insofar suggest that Russia has poured large investments into the Turkish energy market. While scholars argue over who is more dependent and who is less, it seems that both countries are somewhat dependent on each other. For example, Russia needs Turkey to implement its South Stream and Blue Stream II projects. Also, Turkish market is Russia's major energy consumer market after Europe. Turkey also needs Russia as its significant energy supplier, investor and lucrative market for Turkish construction companies. What other particularities of this interdependence can be explored? What view do the international experts hold on this subject?

*From dependence to interdependence:* Tuncay Babali (2012) argues that Turkish-Russian tight partnership is not only evidenced in growing trade figures, but can be seen in gradual deepening of 'relations in the political sphere' which creates 'mutual economic interdependence'. Similarly, Eşref Yalinkılıçlı (2012: 4) argues that these two countries have risen from dependence to interdependence. Although, Turkey is very much dependent on Russian energy sources at large, however, Russia is also dependent on Turkey's 'use it or lose it' energy contracts. By that he means that Turkey is a transit country (as reliability of Ukraine and Belarus as transit countries is steadily fainting) with a prospect through which Russia can secure sale of natural gas to reliable partners in Europe.

Richard Wietz (2010: 66) agrees, "even serving as a transit country for a Gazprom-led effort would benefit Turkey by generating millions of dollars in transit fees, reducing tanker traffic through Turkey's overcrowded and environmentally threatened Bosphorus Straits linking the Black Sea with the Mediterranean". He further contends

that Ankara may consider an option of enhancing Turkey's leverage over Moscow by substantiating Russia's dependence on Turkish transit to reach International Markets. As sources suggest, Russia is also interested in maintaining interdependent trade partnership. In this regard, Putin have said, "Now, talking about Turkey's transformation into Europe's energy hub, this is really so. The key priority for us here is the diversification of routes we use to supply our energy resources to our key markets" (President of Russia 2013).

Both Turkey and Russia view their energy trade partnership to be based on principle of "win-win". In fact, such balanced interdependence makes it possible to cooperate on larger projects. In terms of energy relations, Russia and Turkey view their partnership as 'mutually beneficial' and assert that any area of their cooperation should serve the interests of 'both' countries; and 'balanced interdependence' makes it possible to cooperate on significant projects such as 'Blue Stream' and Nuclear Power Plant in Akkuyu. For instance, ever since Turkey and Russia sat on a table to discuss the South Stream project, Turkey made it clear that it did not regard this project to be rivalling against 'Southern Gas Corridor' (TANAP, Nabucco, ITGI). Despite Russian companies' speculations with regard to Turkey's commitment towards realization of Southern Gas Corridor projects, experts claim that for Turkey "business comes before politics". Doing business with Russia or Caspian countries is possible as long as it favours Turkey's interests (Babali 2012). It must be reminded that this position of Turkey stems from its Engagement policy discussed in previous chapters.

Hence, by making a clear reference to energy dimension of this partnership, Richard Wietz (2010: 67) argues that countries will be in tune for as long as their energy goals coincide and "each benefit from the transport of energy supplies to Central Europe". While their interests in business and trade do substantially coincide, their political differences however persist to grow. That said, can their trade partnership grow despite their differences in political domain? How pragmatic is partnership?

In Tuncay Babali's (2012) view, antagonisms inherent to their Cold War past have now given way to 'pragmatic partnership', thus bilateral relations being rather divergent than convergent. Also, this partnership to date remains rather tactical than strategic. Further, their partnership is based on economic interdependence with mutually-beneficial compromises on energy and trade relations.

That being said, both Russia and Turkey view business to be independent of politics. Even in post 2008 Russian-Georgian crisis, Turkey did not intend to stop energy imports from Russia (Babali 2012). During Putin's recent visit to Turkey in December of 2012, Putin and Erdogan have stated that their political differences over Syrian issues cannot sour their trade partnership (The Voice of Russia 2012).

Commenting on pragmatic side of the partnership, Mehmet Ali Birand, a veteran commentator of Turkey, has said: "The level of economic and political relations is such that neither Turkey can forgo Russia, nor Russia Turkey...the future of Assad is nothing" (The Economist 2012). Other Turkish Analysts argue that despite dissimilar political courses these countries had or have, they perfectly understand that their economic potential in a globalizing world in which superstructure (politics) is much more defined by infrastructure (economics) (Yalinkilicli 2012: 7). Commenting on countries bilateral relations, Amanda Paul, Today's Zaman Columnist, have commented on Turkish-Russia relations being "a very pragmatic affair" (Today's Zaman 2012).

*Based on findings of this chapter, it may be concluded that in early 80s Russian-Turkish trade partnership has evolved as a modest energy project. Towards the end of the century, the relations have transformed from trade partnership in energy sector to multidimensional partnership which now included, in addition to cooperation in fossil fuels sector, broad range of other sectors such as construction, communication, banking, tourism, nuclear energy and many more.*

*Both countries view one another as indispensable trade partners. For Turkey, Russian construction market is profitable. Also, Russia is Turkey's reliable energy supplier, and promising investor. Turkey is Russia's major energy consumer after Europe. Also, Turkey is an alternative transit country for Russia's prospective pipelines, not mentioning the fact that Turkey is a market whereby Russia is able to expand its market positions.*

*Historical and current proponents of this bilateral trade partnership on both sides do maintain closer ties with each other. Their trade relationship is very much based on give and take and win-win principles.*

*By cooperating with one another, both Turkey and Russia are, in one way or another, implementing objectives of their Energy Strategies. For example, as part of its market expansion policy, Russia is implementing the diversification of route and energy*

*commodities instruments. Best example to that is implementation of South Stream pipeline. Also, launch of LNG port in Turkey, as well as Russia's investment in various sectors within Turkish market as a way to expand and enhance its positions in sectors beyond the energy one are best illustrations of that.*

*Turkey, in its own turn, is implementing objectives of its diversification policy. This can be seen in at least several examples. For instance, by allowing construction of the South Stream pipeline, Turkey contributes to multiplication of hydrocarbon pipelines within its periphery. Russia's investments into Turkey's energy market contribute to strengthening of Turkey's infrastructural capacity.*

*These and similar examples demonstrate the extent to which they are interdependent. Also, it must be underlined that their trade partnership is very pragmatic. Their current political differences over Syria, or previous differences over Georgian war of 2008, did not affect their trade partnership. In contrast, bilateral trade is steadily growing from year to year. Respective countries are determined to continue in this pace.*

## 5. Conclusion

As explored in the previous chapters, this thesis concludes that in a new world order influenced by virtues of neoliberal policy Russia aspires to re-emerge as a global power. Today it deems possible through expansion in the global energy markets. That being said, it continuously develops new strategies that will help Russia to integrate into the global free markets.

Findings suggest that Turkey, in its own turn, aspires to transform into a regional power with international significance. Owing to its geostrategic location, Turkey seeks to benefit from its advantageous position. By creating an energy hub that would link Caspian and Middle Eastern energy resources with European consumers, Turkey aspires to be in position to regulate the energy market in the Eurasian axis. Leverage over the energy market is seen an effective tool for country's transformation into a very signification regional player. To this end, Turkey is also engaged in developing new suitable strategies that would be handy in integration of the country into the global free markets.

Further, based on findings it may be said that countries' have developed the Energy Strategies and relevant policies.

To begin with Russia, the “expansion” policy lies at the heart of its Energy Strategy. This policy seeks to expand Russia’s market positions in the global energy markets. This is achieved in two ways: through diversification of export energy commodities and diversification of routes. As international experts argue that from market perspective, both of the elements of the policy do make sense.

Further, Eurasian markets are where Russia wants to consolidate its leading position and considers gradual expansion beyond the natural gas sector. Also, with its diversified export energy portfolio, Russia seeks to access and further integrate into the North American and East Asian markets.

Hence, through expansion and in particular enhancement of its active role in the world energy markets Russia is determined to generate the kind of economic power that shall help Russia’s rise as global economic power.

These findings may be interpreted that Russia’s aspirations are gaining logical order within the Energy Strategy. That being said, Russia’s new strategies seem to make sense in the global neoliberal order and feasibility of their implementation within the free markets is high.

In its own turn, Turkey attempts to adjust itself to a new geostrategic environment. To be more specific about Turkey, it may be said that major objective of Turkish strategy seeks to transform the country into an “energy hub”. By placing a greater focus on “diversification” policy, Turkey, on the one hand, wants to ensure its domestic energy security, and on the other hand, diversify the import of energy resources and routes. Additionally, placing a greater value on its Engagement Policy Turkey attempts to embrace cooperation with as much actors as possible: Russia, Middle East, and Caspian Basin and Central Asian countries. By liaising between energy producers and consumers Turkey hopes to come up with as many energy projects as possible. Also, as part of its diversification and engagement policies, by liberalizing its energy market Turkey hopes to attract more investment and at the same time diversify the energy projects. Turkey’s Engagement Policy coupled with its liberalization program taken together, in the long run, may potentially contribute to realization of Turkey’s energy hub plans.

So far, findings have suggested that both Russia and Turkey, aspiring to rise as global and regional powers, are seeking to integrate into the global free market system. By



developing new and suitable strategies, they are aiming to consolidate their positions as major actors in the global markets. Respective countries' new strategies are very relevant to the needs of the global markets and hold a prospect for consolidation of both countries' positions in the global markets.

Further, research findings evidence that Gazprom has successfully transformed itself into the Global Energy Company with substantial international outreach. Gazprom's newly developed strategies and instruments as in "market expansion" policy and "diversification" components have helped Gazprom to successfully integrate itself into the global free market.

Today Gazprom continues to function as Russia's leading energy company with close affiliation to Kremlin. To this end, Russia's Global Aspirations and its Energy Strategy are broadly reflected on Gazprom's Business Strategy. Findings evidence that this trend would continue to persist.

For Kremlin Gazprom has always been an effective instrument of power. That said, taking into consideration significance of Gazprom in Russia's geopolitical calculus, broader implementation of Russian Energy Policies in the world energy markets will continue through engagement of Russia's energy giant- Gazprom.

Results of the research also suggest that as part of Turkey's Market Liberalization Initiatives and their impact on Turkey's energy market at large, BOTAS's market position has been endangered. While Turkey's liberalization program opened the market for further investments, it at the same time necessitated elimination of BOTAS's monopoly in this particular market, as well as transformation of BOTAS into a regular market player. Hence, as it was explored in the previous chapters, BOTAS's monopoly has not yet reduced and its transformation has since not taken place to the extent it was initially projected. That said, due to predicament pertinent to its structure and obligations, it is unlikely that BOTAS, in the near future, will re-emergence as very effective player in Turkey's liberalized energy market. In addition, Turkish Government too is at odds lacking clear idea on BOTAS's prospective role in pursuit of Ankara's regional aspirations. That being said, BOTAS's further participation in pursuit of Turkey's Grand Aspirations remains unclear.

Further, in a general term Russian-Turkish relations maybe summarized that Russia views Turkey in at least three ways.

Owing to its geographical location, Turkey yields a great opportunity for realization of Russia's expansion and diversification policies in Europe. Turkey is viewed a convenient transit country for the prospective South Stream and possibly Blue Stream II pipelines.

Also, Turkish market is dynamically growing and offers lucrative prospects for Russia's prospective expansion. That said, Turkey's recent market liberalization makes Russia keen to invest in sectors beyond the natural gas sector.

It must be underlined that Russia views its relations with Turkey as "mutually beneficial". Trade partnership, from Russian perspective, is very pragmatic and grows independently of countries' persistent political differences.

Collaboration with Turkey on a short term perspective has potential to help Russia in realization of its "expansion" and "diversification" policies that seek venues for Russia's expansion in the global energy markets. In other words, short term collaboration with Turkey has a prospect of contributing to Russia's Global Aspirations in the longer term.

Turkey views Russia as a major trade partner after Germany. Russia not only invests a lot into transforming Turkish market, but it also has a flawless reputation of ensuring reliability of natural gas supplies to Turkey. In addition, Russian market itself is largest market for Turkish Constructing companies. Largest Turkish investments are poured into construction sector in Russia.

In addition, in the framework of Turkey's Engagement Policy, Russia is viewed a major energy producer that can potentially increase Turkey's "energy hub" capacity. Construction of Russia's major natural gas pipelines, transiting Turkey, in one way or another contributes to Turkey's diversification policy. Also, Russia itself is a great investor in Turkey's domestic market, in particular energy market.

For Turkish governing elite trade partnership with Russia is very interdependent and pragmatic. With its Engagement Policy Turkey has already made it clear that for it business comes before politics. That being said, when it comes to collaboration over pipelines, it pursues "first come-first served" policy. A best example of that is Turkey's support for construction of South Stream, although it, by nature, undermines Nabucco pipeline.

Likewise, short term collaboration with Russia in various sectors, especially energy sector, is seen as a prospect for progressing Turkey's diversification policy. In the

longer term perspective, this collaboration has potential to positively impact Turkey's Regional Aspirations.

Last but not least, both Russia and Turkey understand that they need each other for economic growth. They will continue their trade partnership for so long as it is economically beneficial and meets the objectives of their Energy Strategies at large.

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